

# National Grid Gas Distribution MOD0186 Report (Sep-16)





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## Headline movements in Collectable Revenue

- September forecast is aligned to RRP submission in July-16 in respect of 2015/16 final performance, and forecast data set for remainder of RIIO GD-1
- Largest movement is +£17m impact to 2016/17 revenue collection driven by SOQ increases from 1<sup>st</sup> October indicated by 2016 AQ review so far. This is repaid to Shippers in 2018/19
- PCFM forecast updates for 2017/18 are aligned to AIP dry runs, and utilise RRP forecast data thereafter
- Broad Measure incentive updated for 2015/16 Stakeholder Engagement outcome determined in July, and internal business plan ambitions thereafter



# Headline movement in Collectable Revenue

NETWORK		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)		621.2	609.6	623.1	597.7	615.2	643.2	653.2	658.2
LONDON (£M)		419.8	416.9	445.8	433.5	418.4	447.3	449.0	451.1
NORTH WEST (£M)		453.2	434.8	460.2	453.5	431.6	460.2	473.0	477.0
WEST MIDLANDS (£M)		329.1	332.3	324.7	320.9	325.0	345.7	354.0	355.8
<b>COLLECTABLE REVENUE (JUN-16)</b>		<b>1,823.3</b>	<b>1,793.6</b>	<b>1,853.8</b>	<b>1,805.7</b>	<b>1,790.2</b>	<b>1,896.4</b>	<b>1,929.3</b>	<b>1,942.1</b>
EAST OF ENGLAND (£M)		621.2	609.5	623.0	601.3	617.8	637.6	651.8	661.7
LONDON (£M)		419.8	416.8	445.8	436.4	418.1	441.2	456.4	455.9
NORTH WEST (£M)		453.2	434.8	460.2	461.4	433.9	449.0	469.7	477.9
WEST MIDLANDS (£M)		329.1	332.3	324.6	323.8	325.7	340.6	354.4	356.8
<b>COLLECTABLE REVENUE (SEP-16)</b>		<b>1,823.3</b>	<b>1,793.5</b>	<b>1,853.6</b>	<b>1,822.9</b>	<b>1,795.5</b>	<b>1,868.3</b>	<b>1,932.3</b>	<b>1,952.2</b>
EAST OF ENGLAND (£M)	▲	0.0	(0.1)	(0.2)	3.6	2.6	(5.6)	(1.5)	3.5
LONDON (£M)	▲	(0.0)	(0.0)	0.0	2.9	(0.3)	(6.1)	7.4	4.8
NORTH WEST (£M)	▼	(0.0)	(0.0)	(0.0)	7.8	2.3	(11.3)	(3.3)	0.8
WEST MIDLANDS (£M)	▼	-	(0.0)	(0.0)	2.9	0.7	(5.1)	0.4	1.0
<b>MOVEMENT (£M)</b>	<b>▲</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>17.3</b>	<b>5.3</b>	<b>(28.1)</b>	<b>3.0</b>	<b>10.1</b>
EAST OF ENGLAND (%)	▲	+0.0%	(0.0%)	(0.0%)	+0.6%	+0.4%	(0.9%)	(0.2%)	+0.5%
LONDON (%)	▲	(0.0%)	(0.0%)	+0.0%	+0.7%	(0.1%)	(1.4%)	+1.7%	+1.1%
NORTH WEST (%)	▼	(0.0%)	(0.0%)	(0.0%)	+1.7%	+0.5%	(2.4%)	(0.7%)	+0.2%
WEST MIDLANDS (%)	▼	-	(0.0%)	(0.0%)	+0.9%	+0.2%	(1.5%)	+0.1%	+0.3%
<b>MOVEMENT (%)</b>	<b>▲</b>	<b>+0.0%</b>	<b>(0.0%)</b>	<b>(0.0%)</b>	<b>+1.0%</b>	<b>+0.3%</b>	<b>(1.5%)</b>	<b>+0.2%</b>	<b>+0.5%</b>



# NGGD Level Collectable Revenue Trace

COLLECTABLE REVENUE TRACE	NATIONAL GRID GAS DISTRIBUTION							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.6	1,853.8	1,805.7	1,790.2	1,896.4	1,929.3	1,942.1
INFLATION ▼	-	-	-	-	1.7	(2.9)	(2.6)	(0.8)
INTEREST RATE DROP TO 0.25% ▼	-	-	-	-	-	(0.0)	(0.0)	(0.0)
POST RRP PCFM REFORECAST ▲	-	-	-	0.0	1.1	(7.9)	2.7	6.7
2016/17 RATES BILL UPDATE ▼	-	-	-	-	-	(1.6)	(1.6)	(1.7)
SHRINKAGE & LEAKAGE VOLUMES ▼	-	-	-	-	0.0	(0.3)	(0.7)	(0.8)
GAS PRICE REFERENCE COST ▲	-	-	-	-	-	2.2	2.1	1.7
NET EXIT CAPACITY ▲	-	-	-	(0.0)	(0.0)	0.1	(0.0)	(0.0)
BROAD MEASURE INCENTIVE ▲	-	-	-	-	1.9	0.1	3.2	5.0
NIA COST REFORECAST ▲	-	-	-	-	0.3	0.2	-	-
REVENUE COLLECTION ▼	0.0	(0.1)	(0.3)	17.3	0.2	(17.9)	(0.0)	0.1
OTHER CHANGES ▲	-	-	-	-	-	-	-	-
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,822.9	1,795.5	1,868.3	1,932.3	1,952.2
% MOVEMENT	+0.0%	(0.0%)	(0.0%)	+1.0%	+0.3%	(1.5%)	+0.2%	+0.5%



# Collectable revenue trace: Inflation

INFLATION		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	0.6	(1.0)	(0.9)	(0.3)
LONDON (£M)	▼	0.4	(0.7)	(0.6)	(0.2)
NORTH WEST (£M)	▼	0.4	(0.7)	(0.6)	(0.2)
WEST MIDLANDS (£M)	▼	0.3	(0.5)	(0.5)	(0.2)
NGGD (£M)	▼	1.7	(2.9)	(2.6)	(0.8)
EAST OF ENGLAND (%)	▼	+0.1%	(0.1%)	(0.1%)	(0.0%)
LONDON (%)	▼	+0.1%	(0.2%)	(0.1%)	(0.0%)
NORTH WEST (%)	▼	+0.1%	(0.2%)	(0.1%)	(0.0%)
WEST MIDLANDS (%)	▼	+0.1%	(0.2%)	(0.1%)	(0.0%)
NGGD (%)	▼	+0.1%	(0.2%)	(0.1%)	(0.0%)

- NB figures are variance to previous forecast
- Reflects actual RPI positions to July 2016, and HM Treasury 'Forecasts for the UK Economy' report published August 2016
- Essentially driven by low level re-profiling across the next 4 years
- A far more stable horizon than we have previously seen over the last 18 months

HMT Inflation Forecasts	2016	2017	2018	2019	2020
May-16	1.8%	2.6%	3.1%	3.1%	3.3%
Aug-16	1.7%	2.8%	3.0%	3.1%	3.3%
Change	(0.1%)	+0.2%	(0.1%)	-	-

Financial Year Inflation Forecast	2016/17	2017/18	2018/19	2019/20	2020/21
Jun-16	1.9%	2.7%	3.1%	3.2%	3.2%
Sep-16	1.8%	2.8%	3.0%	3.2%	3.2%
Change	(0.1%)	+0.1%	(0.1%)	-	-



# Collectable revenue trace: BoE Interest Rate

INTEREST RATE DROP TO 0.25%		2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	(0.0)	(0.0)	(0.0)
LONDON (£M)	▼	(0.0)	(0.0)	(0.0)
NORTH WEST (£M)	▼	(0.0)	(0.0)	(0.0)
WEST MIDLANDS (£M)	▼	(0.0)	(0.0)	(0.0)
NGGD (£M)	▼	(0.0)	(0.0)	(0.0)
EAST OF ENGLAND (%)	▼	(0.0%)	(0.0%)	(0.0%)
LONDON (%)	▼	(0.0%)	(0.0%)	(0.0%)
NORTH WEST (%)	▼	(0.0%)	(0.0%)	(0.0%)
WEST MIDLANDS (%)	▼	(0.0%)	(0.0%)	(0.0%)
NGGD (%)	▼	(0.0%)	(0.0%)	(0.0%)

- NB figures are variance to previous forecast
- Shown more for interest than impact
- Bank of England base rate dropped to 0.25% in August 2016
- However this term only really affects a small number of mechanisms (Broad Measure and K adjustment)
- Has little impact to revenue forecasts



# Collectable revenue trace: PCFM

PCFM (£M NOMINAL)		2017/18	2018/19	2019/20	2020/21
LOAD RELATED CAPEX	▼	(0.4)	(11.7)	0.6	1.5
OTHER CAPEX	▲	0.8	2.7	4.8	5.1
CONTROLLABLE OPEX	▲	(1.2)	(0.4)	0.6	1.4
REPLACEMENT EXPENDITURE	▲	5.4	1.2	3.7	3.0
<b>TOTEX INCENTIVE MECHANISM</b>	▲	4.5	(8.2)	9.7	10.9
ENHANCED PHYSICAL SITE SECURITY (CNI)	▼	(0.2)	(0.0)	(6.7)	(5.0)
FUEL POOR NETWORK EXTENSIONS	▼	0.1	0.0	(0.1)	(0.1)
MAINS & SERVICES (REPEX T2)	▼	(5.0)	(0.7)	(0.7)	(0.7)
OTHER UNCERTAINTY	▲	0.0	0.4	0.3	0.3
<b>UNCERTAINTY MECHANISMS</b>	▼	(5.1)	(0.3)	(7.2)	(5.5)
COST OF DEBT	▲	1.7	0.0	0.0	0.1
TAX TRIGGER REFORECAST	▲	(0.0)	0.6	0.2	1.3
OTHER PCFM CHANGES	▲	0.1	0.0	(0.0)	0.1
<b>TOTAL PCFM UPDATE</b>	▲	1.2	(7.8)	2.7	6.8

- NB figures are variance to previous forecast
- Reflects latest Totex forecast as submitted in 2015/16 RRP
- TIM impacts driven by back-ended capex spend, largely flat opex, and accelerated repex spend
- Principal change to UMs relates to interaction of CNI expenditure with capital allowances, which has the effect of reducing revenue profile relative to previous forecast
- Cost of debt for 2017/18 updated based on 2016 AIP dry run positions, reflecting an increase of 0.03%



# Collectable revenue trace: Rates

2016/17 RATES BILL UPDATE		2018/19	2019/20	2020/21
EAST OF ENGLAND	▼	(0.7)	(0.7)	(0.7)
LONDON	▼	(0.3)	(0.3)	(0.3)
NORTH WEST	▼	(0.3)	(0.3)	(0.4)
WEST MIDLANDS	▼	(0.3)	(0.3)	(0.3)
NGGD	▼	(1.6)	(1.6)	(1.7)
EAST OF ENGLAND	▼	(0.1%)	(0.1%)	(0.1%)
LONDON	▼	(0.1%)	(0.1%)	(0.1%)
NORTH WEST	▼	(0.1%)	(0.1%)	(0.1%)
WEST MIDLANDS	▼	(0.1%)	(0.1%)	(0.1%)
NGGD	▼	(0.1%)	(0.1%)	(0.1%)

- NB figures are variance to previous forecast
- Rates forecast updated for 2016/17 bill carried forwards for future years
- Quantification of rates risk flagged previously is still pending
- Awaiting response from Valuation Office on challenges put forwards via work group in August
- Separation of NGGD liabilities from NGG Plc currently being passed through Parliament
- Expecting firm position from end of September



## Collectable revenue trace: Shrinkage & Leakage Volumes

SHRINKAGE & LEAKAGE VOLUMES		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	(0.1)	(0.5)	(0.6)	(0.6)
LONDON (£M)	▼	(0.3)	(0.2)	(0.4)	(0.4)
NORTH WEST (£M)	▲	0.0	0.0	0.0	0.0
WEST MIDLANDS (£M)	▲	0.4	0.3	0.2	0.2
NGGD (£M)	▼	0.0	(0.3)	(0.7)	(0.8)
EAST OF ENGLAND (%)	▼	(0.0%)	(0.1%)	(0.1%)	(0.1%)
LONDON (%)	▼	(0.1%)	(0.1%)	(0.1%)	(0.1%)
NORTH WEST (%)	▲	+0.0%	+0.0%	+0.0%	+0.0%
WEST MIDLANDS (%)	▲	+0.1%	+0.1%	+0.1%	+0.1%
NGGD (%)	▼	+0.0%	(0.0%)	(0.0%)	(0.0%)

- NB figures are variance to previous forecast
- Low level impact coming from RRP volume forecast
- Primarily slightly lower benefit flowing from repex programme

Shrinkage	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Jun-16 (gWh)	1329.4	1291.9	1255.9	1220.9	1185.9	1149.9
Sep-16 (gWh)	1324.1	1292.0	1257.0	1224.0	1191.0	1155.0
% Change	(0.4%)	+0.0%	+0.1%	+0.3%	+0.4%	+0.4%

Leakage	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Jun-16 (gWh)	1245.4	1207.9	1171.9	1136.9	1100.9	1066.9
Sep-16 (gWh)	1244.8	1211.0	1178.0	1143.0	1111.0	1077.0
% Change	(0.0%)	+0.3%	+0.5%	+0.5%	+0.9%	+0.9%



# Collectable revenue trace: GPRC

GAS PRICE REFERENCE COST		2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	0.7	0.7	0.6
LONDON (£M)	▲	0.4	0.4	0.3
NORTH WEST (£M)	▲	0.5	0.5	0.4
WEST MIDLANDS (£M)	▲	0.5	0.5	0.4
<b>NGGD (£M)</b>	<b>▲</b>	<b>2.2</b>	<b>2.1</b>	<b>1.7</b>
EAST OF ENGLAND (%)	▲	+0.1%	+0.1%	+0.1%
LONDON (%)	▲	+0.1%	+0.1%	+0.1%
NORTH WEST (%)	▲	+0.1%	+0.1%	+0.1%
WEST MIDLANDS (%)	▲	+0.1%	+0.1%	+0.1%
<b>NGGD (%)</b>	<b>▲</b>	<b>+0.1%</b>	<b>+0.1%</b>	<b>+0.1%</b>

- NB figures are variance to previous forecast
- Gas price reference cost forecast is tracking upwards from the June forecast, pushing shrinkage costs, and therefore pass through revenue up
- Also slightly increases the value of the Shrinkage Incentive
- Our GPRC forecasts are sourced from ICIS energy pricing reports

FORMULA YEAR	2016/17	2017/18	2018/19	2019/20	2020/21
CURRENT (£/GWH)	12,614	13,119	13,416	13,819	14,233
PREVIOUS (£/GWH)	11,241	11,750	12,292	12,660	13,040
CHANGE (£/GWH)	1,373	1,369	1,124	1,159	1,193
CHANGE (%)	12%	12%	9%	9%	9%



# Collectable revenue trace: Broad Measure

BROAD MEASURE INCENTIVE		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	1.1	0.5	1.1	1.7
LONDON (£M)	▲	(0.3)	(0.9)	0.8	1.2
NORTH WEST (£M)	▲	1.2	0.9	0.8	1.2
WEST MIDLANDS (£M)	▲	(0.0)	(0.4)	0.6	0.9
<b>NGGD (£M)</b>	<b>▲</b>	<b>1.9</b>	<b>0.1</b>	<b>3.2</b>	<b>5.0</b>
EAST OF ENGLAND (%)	▲	+0.2%	+0.1%	+0.2%	+0.3%
LONDON (%)	▲	(0.1%)	(0.2%)	+0.2%	+0.3%
NORTH WEST (%)	▲	+0.3%	+0.2%	+0.2%	+0.2%
WEST MIDLANDS (%)	▲	(0.0%)	(0.1%)	+0.2%	+0.3%
<b>NGGD (%)</b>	<b>▲</b>	<b>+0.1%</b>	<b>+0.0%</b>	<b>+0.2%</b>	<b>+0.3%</b>

- NB figures are variance to previous forecast
- Reflects final CSAT scores for 2015/16 and Stakeholder Engagement score of 6.9 awarded in July 2016
- Future years have been aligned to internal business plan aspirations for Customer Satisfaction and Stakeholder Engagement performance



# Collectable revenue trace: Revenue Collection

REVENUE COLLECTION		2016/17	2017/18	2018/19
EAST OF ENGLAND (£M)	▲	3.6	0.2	(3.3)
LONDON (£M)	▼	2.9	(0.2)	(3.6)
NORTH WEST (£M)	▼	7.8	0.1	(8.0)
WEST MIDLANDS (£M)	▼	2.9	0.1	(3.0)
NGGD (£M)	▼	17.3	0.2	(17.9)
EAST OF ENGLAND (%)	▲	+0.6%	+0.0%	(0.5%)
LONDON (%)	▼	+0.7%	(0.0%)	(0.8%)
NORTH WEST (%)	▼	+1.7%	+0.0%	(1.7%)
WEST MIDLANDS (%)	▲	+0.9%	+0.0%	(0.9%)
NGGD (%)	▼	+0.9%	+0.0%	(1.0%)

- NB figures are variance to previous forecast
- Revenue collection forecast for 2016/17 driven up by indicative AQ and SOQ position for 1<sup>st</sup> October coming from 2016 AQ review (see next slide)
- Over collection in 2016/17 repaid to Shippers in 2018/19

NETWORK	EE	LO	NW	WM	NGGD
2016/17 ALLOWED REVENUE FORECAST	597.8	433.1	453.7	321.9	1,806.5
2016/17 COLLECTED REVENUE FORECAST	601.3	436.4	461.4	323.8	1,822.9
OVER / (UNDER) COLLECTION	3.5	3.3	7.7	2.0	16.5
OVER / (UNDER) COLLECTION %	+0.6%	+0.8%	+1.7%	+0.6%	+0.9%



# 2016 AQ Review

<b>NETWORK</b>	<b>EE</b>	<b>LO</b>	<b>NW</b>	<b>WM</b>	<b>NGGD</b>
PREVIOUS SOQ FORECAST CHANGE AT OCT-16	(1.5%)	(1.3%)	(2.6%)	(1.6%)	(1.8%)
INDICATIVE PER 2016 AQ REVIEW	+1.7%	+1.4%	+3.0%	+0.5%	+1.7%
CHANGE	+3.1%	+2.8%	+5.7%	+2.2%	+3.5%

<b>INDICATIVE SOQ FORECAST ANALYSED BY:</b>	<b>EE</b>	<b>LO</b>	<b>NW</b>	<b>WM</b>	<b>NGGD</b>
LOAD FACTOR IMPACT	+1.3%	+1.2%	+3.4%	+0.7%	+1.6%
UNDERLYING AQ	(0.2%)	+0.1%	(0.8%)	(0.3%)	(0.3%)
CSEP / UNIQUE SITE GROWTH	+0.6%	+0.1%	+0.4%	+0.1%	+0.4%
INDICATIVE OCTOBER SOQ CHANGE	+1.7%	+1.4%	+3.0%	+0.5%	+1.7%

<b>2017/18 PRICE CHANGE BASED ON INDICATIVE:</b>	<b>EE</b>	<b>LO</b>	<b>NW</b>	<b>WM</b>	<b>NGGD</b>
CHANGE IN ALLOWED REVENUE	+3.4%	(3.5%)	(4.4%)	+1.2%	(0.6%)
AQ / SOQ ASSUMPTION DIFF IN 16/17 PRICES	(0.6%)	(0.7%)	(1.3%)	(0.4%)	(0.7%)
CHANGE IN AVERAGE YEAR SOQ	(0.8%)	(0.7%)	(1.5%)	(0.4%)	(0.5%)
PRICE CHANGE SHOWN IN MOD0186 REPORT	+1.9%	(4.8%)	(7.1%)	+0.4%	(1.8%)

- Previous forecast based on rolling 3 year average prior to commencement of AQ review
- Seeing a forecast SOQ reduction swinging to a forecast increase
- This is driven by the impact of implementation of new load factors from 1<sup>st</sup> October, but also that underlying Aqs are much flatter than previously assumed
- An SOQ increase in October will drive up revenue collection in 2016/17, but push down unit price changes in 2017/18
- Due to remaining uncertainties, could be up to 0.5% variance in impact to average price change



## Risks and Uncertainties

- Maintaining FGO sensitivity re allowance reduction pending finalisation from Ofgem due end of September
- As noted previously, Business Rates risk remains unquantified in the MOD0186 report. Impact to Shippers would be from 2019/20
- Finalisation of AQs and SOQs may have further impact on 2017/18 price changes. Will have a more firm view for indicative pricing in October, and MOD0186 in December
- Uncertainty Mechanisms – Smart unchanged from last report. Movement in CNI relates to a allowed spend vs capital allowance interaction, and is effectively a re-analysis from Totex (Other Capex) relative to previous forecast