



K Model Scenarios

Will Guest

Current Process – K recovered in t+1

	RPI-X					RIIO	
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/14
Final Allowed Revenue per PCR	310.6	339.4	327.5	350.6	372.6		
Movement in Pass Through/Incentives	2.3	1.7	1.3	7.0	8.5		
Movement in K	(6.5)	(2.4)	1.5	(8.8)	(0.9)		
Final Allowed Revenue	306.4	338.7	330.3	348.8	380.2	392.9	404.7
Collected Revenue	308.6	337.3	339.0	349.7	380.1	392.7	404.6
Forecast (Under)/Over Recovery K	2.3	(1.5)	8.6	0.9	(0.1)	(0.1)	(0.1)
April Price Change		3.6%	8.4%	6.4%	11.2%	6.3%	6.0%
October Price Change	11.3%	(5.0%)					

NGN data based on Apr-11 Mod 186 Revenue Report

Scenario 1 – K recovered in t+(1,2,3,4)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/14
Final Allowed Revenue per PCR	310.6	339.4	327.5	350.6	372.6		
Movement in Pass Through/Incentives	2.3	1.7	1.3	7.0	8.5		
Movement in K	(1.6)	(2.2)	(1.9)	(4.1)	(2.7)	(2.1)	(2.4)
Final Allowed Revenue	311.3	338.9	327.0	353.6	378.5	389.3	398.5
Theoretical estimated % Change required to ensure Collected Revenue = Allowed Revenue				11.0%	9.9%	5.7%	5.2%

Full impact of 4 years of K

NGN data modelled on Apr-11 Mod 186 Revenue Report

Scenario 2 – K and Incentives recovered in t+(1,2,3,4)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/14
Final Allowed Revenue per PCR	310.6	339.4	327.5	350.6	372.6		
Movement in Pass Through/Incentives excluding NTS Exit	0.6	1.0	1.3	3.1	3.2	2.7	2.4
NTS Exit Charges				5.9	11.7		
Movement in K	(1.6)	(2.2)	(1.9)	(4.1)	(2.7)	(2.1)	(2.4)
Final Allowed Revenue	309.6	338.2	327.0	355.5	384.8	398.6	410.5
Theoretical estimated % Change required to ensure Collected Revenue = Allowed Revenue				11.6%	11.1%	6.4%	5.8%

Full impact of 4 years of K

NGN data modelled on Apr-11 Mod 186 Revenue Report

Summary of Forecast Price Changes

	2011/12	2012/13	2013/14	2014/14
K recovered in t+1	6.4%	11.2%	6.3%	6.0%
K recovered in t+(1,2,3,4)	11.0%	9.9%	5.7%	5.2%
K and Incentives in t+(1,2,3,4)	11.6%	11.1%	6.4%	5.8%

- Smoothing scenarios show no improvements to predictability and stability of Price Changes
- What is driving the Price Changes....?

NGN data modelled on Apr-11 Mod 186 Revenue Report

How the Price Change is built up (1)

NGN is forecasting a 11.3% Price Change in April 2012

	£'m	% on PY
Price control at 2005/06 year prices per Licence	292.5	1.1%
Inflate to Current Year prices		5.1%
Final Allowed Revenue at Current Prices	372.6	6.3%
Movement in Pass Through/Incentives	8.5	2.4%
Movement in K	(0.9)	-0.3%
Final Allowed Revenue	380.2	8.3%
Impact of AQ Review		3.0%
Total Price Change		11.3%

Per Licence

Based on latest RPI forecast – 5.1% on Prior Year, 27.3% since 2005/6

Variable element less than 20%

SOQ reductions

NGN data based on Apr-11 Mod 186 Revenue Report

How the Price Change is built up (2)

NGN is forecasting a 11.3% Price Change in April 2012 But the effective price change is 8.3%

	£'m	% on PY
Price control at 2005/06 year prices per Licence	292.5	1.1%
Inflate to Current Year prices		5.1%
Final Allowed Revenue at Current Prices	372.6	6.3%
Movement in Pass Through/Incentives	8.5	2.4%
Movement in K	(0.9)	-0.3%
Final Allowed Revenue	380.2	8.3%
Impact of AQ Review		3.0%
Total Price Change		11.3%

% Price changes due to declining SOQs does not effect what shippers pay in total

As our charging base reduces unit rates have to rise to maintain the same revenue flow

NGN data based on Apr-11 Mod 186 Revenue Report

How the Price Change is built up (3)

- Over 80% of forecasted Price Change is due to RPI and SOQ reductions
- Shippers quite rightly require predictability in charges
- Therefore need to focus on RPI variability and improving accuracy of AQ review
- This represents NGN's position, it does not necessarily reflect the other Distribution Networks

RPI

- In current Price Control, inflation for a regulatory year is the annual movement in RPI from July to December for previous calendar year.
- E.g. RPI for 2011/12 is average annual increase in July to December 2010 compared to same period in 2009
- Improvement opportunities:
 - Formally report inflation changes to Shippers in January each year once July to December figures known
 - Consistent approach to forecasting RPI used in Mod 186 reports
 - Publish forecasts on a rolling monthly basis
- 2008 –13 Price Control driven by RPI, formulated in a period of low and stable inflation – new Price Control will have less focus on RPI

AQ Review

- SOQ have reduced year-on-year since start of Price Control
- Typically 3%, but 5.5% in October 2010 – this has driven some of the significant price increases in April 2011
- Improvement opportunities:
 - Consistent approach amongst the DNs in predicting the outcome of the AQ review
 - DNs and Shippers to work together to share demand data
 - Rolling AQs (Mod380)
 - Delaying timing of the impact of the AQ Review

Shrinkage

- Revenue calculated by volumes contained within the Licence, buy to official leakage volumes
- Both are calculated on Day-Ahead prices, the difference in volume being the efficiency incentive
- Only impact on price change during periods of uncertainty, spanning regulatory years



Summary

- Main drivers of pricing variability in the current Price Control are RPI and outcome of AQ Review
- Focus on improving forecasting and reporting of these elements
- K and Incentives are secondary drivers, smoothing could decrease predictability and stability of prices rather than improving
- Need to incorporate NTS Exit Charges into the Mod
- All data above is based on NGN data, and does not necessarily reflect the position of the other Distribution Networks