

# NGGD MOD0186 June 2016

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# Updates for June-16 MOD0186

- **May-16 HMT Forecasts for UK Economy (drives RPIf)**
- **Published RPI indices for Feb, Mar & Apr (drives RPIAt)**
- **Corporation tax to 17% from April 2020 (drives post tax IQI & MODt)**
- **Formula rates pass through updated for 2015/16 out-turn**
- **License fees pass through updated for 2015/16 out-turn, and future forecast based on Ofgem forward work plan published Mar-16**
- **Reviewed tail end of Pension Deficit Pass through (impact to 2020/21 revenue)**
- **NTS Indicative Exit Capacity rates as published May-16**
- **Reforecast of Gas Price Reference Cost based on 15/16 out-turn, and ICIS forward forecast**
- **Finalization of 2015/16 NIA expenditure and Theft of Gas activities**
- **Standard monthly updates for collected revenue and exit capacity cost invoices**



# Updates for June-16 MOD0186

- **Risks and sensitivities:**
- **Reflected impact of deferred Smart Metering submission (logged forecast up to 2018/19)**
- **Provisional view of FGO impact based on Jan-16 cost submission to Ofgem to provide sense of magnitude**
- **Developing position on Formula Rates pass through risk (see later slides)**



# Headline Changes to Collectable Revenue

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND		623.5	597.1	615.4	643.5	657.1	663.0
LONDON		446.8	433.3	419.4	447.1	451.8	454.6
NORTH WEST		461.1	453.5	431.3	460.6	476.4	481.1
WEST MIDLANDS		325.0	321.6	325.1	345.8	356.5	357.7
<b>COLLECTABLE REVENUE (MAR-16)</b>		<b>1,856.4</b>	<b>1,805.5</b>	<b>1,791.2</b>	<b>1,897.0</b>	<b>1,941.9</b>	<b>1,956.4</b>
EAST OF ENGLAND		623.1	597.7	615.2	643.2	653.2	658.2
LONDON		445.8	433.5	418.4	447.3	449.0	451.1
NORTH WEST		460.2	453.5	431.6	460.2	473.0	477.0
WEST MIDLANDS		324.7	320.9	325.0	345.7	354.0	355.8
<b>COLLECTABLE REVENUE (JUN-16)</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	▼	(0.4)	0.6	(0.2)	(0.4)	(3.9)	(4.8)
LONDON	▼	(1.0)	0.2	(1.0)	0.2	(2.9)	(3.5)
NORTH WEST	▼	(0.9)	0.1	0.3	(0.3)	(3.4)	(4.1)
WEST MIDLANDS	▼	(0.3)	(0.7)	(0.1)	(0.1)	(2.5)	(1.9)
<b>CHANGE (£M)</b>	▼	<b>(2.6)</b>	<b>0.2</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>(12.6)</b>	<b>(14.3)</b>
EAST OF ENGLAND	▼	(0.1%)	0.1%	(0.0%)	(0.1%)	(0.6%)	(0.7%)
LONDON	▼	(0.2%)	0.1%	(0.2%)	0.1%	(0.6%)	(0.8%)
NORTH WEST	▼	(0.2%)	0.0%	0.1%	(0.1%)	(0.7%)	(0.8%)
WEST MIDLANDS	▼	(0.1%)	(0.2%)	(0.0%)	(0.0%)	(0.7%)	(0.5%)
<b>CHANGE (%)</b>	▼	<b>(0.1%)</b>	<b>0.0%</b>	<b>(0.1%)</b>	<b>(0.0%)</b>	<b>(0.7%)</b>	<b>(0.7%)</b>



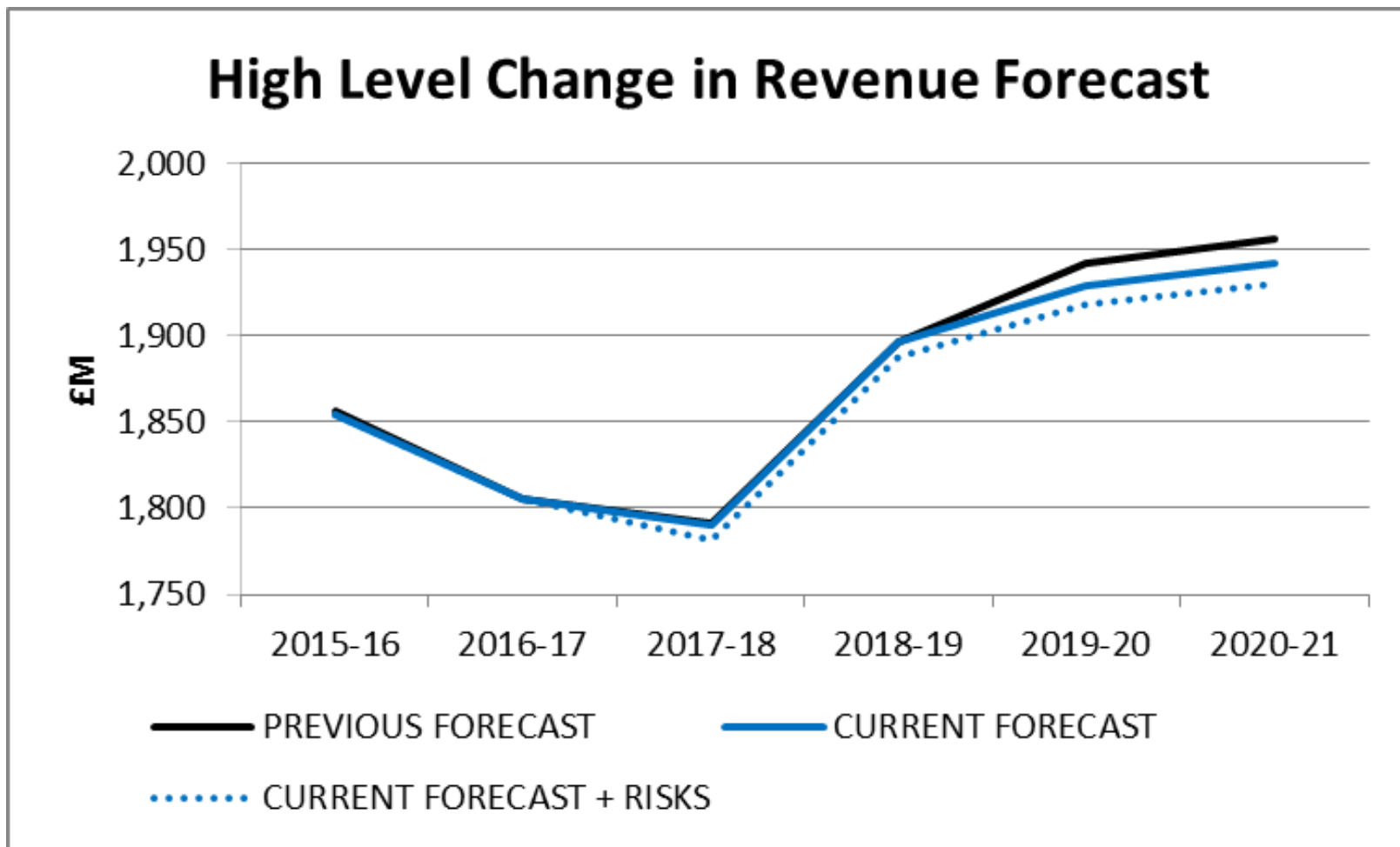
# High Level Change Drivers

	NGGD TOTAL					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>COLLECTABLE REVENUE (MAR-16)</b>	<b>1,856.4</b>	<b>1,805.5</b>	<b>1,791.2</b>	<b>1,897.0</b>	<b>1,941.9</b>	<b>1,956.4</b>
INFLATION UPDATES (HMT & RPI)	▲ (0.0)	(0.0)	2.4	0.4	(1.4)	1.1
CORPORATION TAX	▼ -	-	-	-	-	(9.3)
BUSINESS RATES & LICENSE FEES	▲ -	-	1.9	2.9	3.2	2.8
PENSION DEFICIT COST PROFILE	▲ -	-	-	-	0.2	10.3
NTS INDICATIVE UNIT RATES	▼ -	-	(0.1)	(0.6)	(8.1)	(12.8)
GAS PRICE REFERENCE COST	▼ -	-	(2.7)	(7.0)	(6.5)	(6.2)
DEFERRED SMART UM SUBMISSION	▼ -	-	(4.0)	3.9	0.0	-
OTHER LOW LEVEL MOVEMENTS	▼ (2.6)	0.2	1.4	(0.1)	(0.0)	(0.1)
<b>COLLECTABLE REVENUE (JUN-16)</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>
<b>CHANGE (£M)</b>	<b>▼ (2.6)</b>	<b>0.2</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>(12.6)</b>	<b>(14.3)</b>
<b>CHANGE (%)</b>	<b>▼ (0.1%)</b>	<b>0.0%</b>	<b>(0.1%)</b>	<b>(0.0%)</b>	<b>(0.7%)</b>	<b>(0.7%)</b>

REVENUE FORECAST RISKS	NGGD TOTAL					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
FGO	▼ -	-	(9.0)	(9.0)	(11.0)	(12.0)



# High Level Change Drivers





# Inflation

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▲	0.0	0.0	0.8	0.1	(0.5)	0.4
LONDON	▲	0.0	0.0	0.6	0.1	(0.3)	0.3
NORTH WEST	▲	(0.0)	(0.0)	0.6	0.1	(0.3)	0.3
WEST MIDLANDS	▲	(0.0)	0.0	0.4	0.1	(0.2)	0.2
<b>INFLATION (£M CHANGE)</b>	▲	<b>(0.0)</b>	<b>(0.0)</b>	<b>2.4</b>	<b>0.4</b>	<b>(1.4)</b>	<b>1.1</b>
EAST OF ENGLAND	▲	0.0%	0.0%	0.1%	0.0%	(0.1%)	0.1%
LONDON	▲	0.0%	0.0%	0.1%	0.0%	(0.1%)	0.1%
NORTH WEST	▲	(0.0%)	(0.0%)	0.1%	0.0%	(0.1%)	0.1%
WEST MIDLANDS	▲	(0.0%)	0.0%	0.1%	0.0%	(0.1%)	0.1%
<b>INFLATION (% CHANGE)</b>	▲	<b>(0.0%)</b>	<b>(0.0%)</b>	<b>0.1%</b>	<b>0.0%</b>	<b>(0.1%)</b>	<b>0.1%</b>

- **Low level inflation related change for this report**
- **Essentially +/- 0.1% re-profiling within HMT report**



# Corporation Tax

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	-	-	-	-	-	(3.1)
LONDON	▼	-	-	-	-	-	(2.2)
NORTH WEST	▼	-	-	-	-	-	(2.2)
WEST MIDLANDS	▼	-	-	-	-	-	(1.8)
<b>CORPORATION TAX (£M CHANGE)</b>	▼	-	-	-	-	-	<b>(9.3)</b>
EAST OF ENGLAND	▼	-	-	-	-	-	(0.5%)
LONDON	▼	-	-	-	-	-	(0.5%)
NORTH WEST	▼	-	-	-	-	-	(0.5%)
WEST MIDLANDS	▼	-	-	-	-	-	(0.5%)
<b>CORPORATION TAX (% CHANGE)</b>	▼	-	-	-	-	-	<b>(0.5%)</b>

- Latest government budget proposed reduction to 17% from April 2020
- Change predominantly impacts MODt term, but also low level changes to incentives that are driven by post tax IQI





# Business Rates

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▲	-	-	0.8	0.9	0.9	0.9
LONDON	▲	-	-	0.4	0.4	0.4	0.4
NORTH WEST	▲	-	-	0.4	0.4	0.5	0.5
WEST MIDLANDS	▲	-	-	0.3	0.4	0.4	0.4
<b>BUSINESS RATES (£M CHANGE)</b>	▲	-	-	2.0	2.1	2.1	2.2
EAST OF ENGLAND	▲	-	-	0.1%	0.1%	0.1%	0.1%
LONDON	▲	-	-	0.1%	0.1%	0.1%	0.1%
NORTH WEST	▲	-	-	0.1%	0.1%	0.1%	0.1%
WEST MIDLANDS	▲	-	-	0.1%	0.1%	0.1%	0.1%
<b>BUSINESS RATES (% CHANGE)</b>	▲	-	-	0.1%	0.1%	0.1%	0.1%

- **Based on 2015/16 final out-turn, and underlying change rolled forwards**
- **Not reflective of developing risk (see later slides)**



# License Fees

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▲	-	-	(0.0)	0.3	0.4	0.2
LONDON	▲	-	-	(0.0)	0.2	0.2	0.1
NORTH WEST	▲	-	-	(0.0)	0.2	0.3	0.1
WEST MIDLANDS	▲	-	-	(0.0)	0.1	0.2	0.1
<b>LICENSE FEES (£M CHANGE)</b>	▲	-	-	<b>(0.1)</b>	<b>0.8</b>	<b>1.1</b>	<b>0.6</b>
EAST OF ENGLAND	▲	-	-	(0.0%)	0.0%	0.1%	0.0%
LONDON	▲	-	-	(0.0%)	0.0%	0.0%	0.0%
NORTH WEST	▲	-	-	(0.0%)	0.0%	0.1%	0.0%
WEST MIDLANDS	▲	-	-	(0.0%)	0.0%	0.1%	0.0%
<b>LICENSE FEES (% CHANGE)</b>	▲	-	-	<b>(0.0%)</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.0%</b>

- **Minor movements driven by 2015/16 final position**
- **Future forecast derived from Ofgem Forward Work Plan published in Mar-16**



# Pension Deficit

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▲	-	-	-	-	0.1	3.7
LONDON	▲	-	-	-	-	0.0	2.2
NORTH WEST	▲	-	-	-	-	0.0	2.5
WEST MIDLANDS	▲	-	-	-	-	0.0	1.8
<b>PENSION DEFICIT (£M CHANGE)</b>	▲	-	-	-	-	<b>0.2</b>	<b>10.3</b>
EAST OF ENGLAND	▲	-	-	-	-	0.0%	0.6%
LONDON	▲	-	-	-	-	0.0%	0.5%
NORTH WEST	▲	-	-	-	-	0.0%	0.5%
WEST MIDLANDS	▲	-	-	-	-	0.0%	0.5%
<b>PENSION DEFICIT (% CHANGE)</b>	▲	-	-	-	-	<b>0.0%</b>	<b>0.5%</b>

- **Review of model highlighted that forecast cost profile was dropping to level of allowances after the end of the current 3 year review period**
- **Given that current level of cost are higher than allowances, this did not make logical sense**
- **Updated cost profile so that current levels of cost assumed to continue into the future**



# NTS Indicative Rates

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	-	-	(0.0)	0.1	(2.5)	(4.8)
LONDON	▼	-	-	(0.0)	(0.2)	(2.0)	(3.1)
NORTH WEST	▼	-	-	(0.0)	(0.0)	(2.2)	(3.7)
WEST MIDLANDS	▼	-	-	(0.0)	(0.5)	(1.4)	(1.3)
<b>NTS INDICATIVE RATES (£M CHANGE)</b>	▼	-	-	<b>(0.1)</b>	<b>(0.6)</b>	<b>(8.1)</b>	<b>(12.8)</b>
EAST OF ENGLAND	▼	-	-	(0.0%)	0.0%	(0.4%)	(0.7%)
LONDON	▼	-	-	(0.0%)	(0.0%)	(0.4%)	(0.7%)
NORTH WEST	▼	-	-	(0.0%)	(0.0%)	(0.5%)	(0.8%)
WEST MIDLANDS	▼	-	-	(0.0%)	(0.1%)	(0.4%)	(0.4%)
<b>NTS INDICATIVE RATES (% CHANGE)</b>	▼	-	-	<b>(0.0%)</b>	<b>(0.0%)</b>	<b>(0.4%)</b>	<b>(0.7%)</b>

- **Impact of NTS Indicative rates published May-16**
- **Impact is to Exit Capacity pass through (impact to Incentive is beyond RIIO GD-1 horizon)**
- **2016 capacity bookings currently under review – expect update on this in Sep-16 MOD0186 report**



# Gas Price Reference Cost

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	-	-	(0.9)	(2.4)	(2.2)	(2.2)
LONDON	▼	-	-	(0.5)	(1.3)	(1.2)	(1.2)
NORTH WEST	▼	-	-	(0.7)	(1.8)	(1.6)	(1.6)
WEST MIDLANDS	▼	-	-	(0.6)	(1.5)	(1.4)	(1.4)
<b>GPRC (£M CHANGE)</b>	▼	-	-	<b>(2.7)</b>	<b>(7.0)</b>	<b>(6.5)</b>	<b>(6.2)</b>
EAST OF ENGLAND	▼	-	-	(0.2%)	(0.4%)	(0.3%)	(0.3%)
LONDON	▼	-	-	(0.1%)	(0.3%)	(0.3%)	(0.3%)
NORTH WEST	▼	-	-	(0.2%)	(0.4%)	(0.3%)	(0.3%)
WEST MIDLANDS	▼	-	-	(0.2%)	(0.4%)	(0.4%)	(0.4%)
<b>GPRC (% CHANGE)</b>	▼	-	-	<b>(0.2%)</b>	<b>(0.4%)</b>	<b>(0.3%)</b>	<b>(0.3%)</b>

- True up of 2015/16 final GPRC, plus forward forecast based on ICIS data
- Majority of impact is to Shrinkage pass through element, but also lower level impact to the Incentive
- Final 2015/16 Shrinkage and Leakage and forecast volumes currently being finalized as part of RRP process – expect update in Sep-16 MOD0186 report



# Smart Metering Uncertainty Measure

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	-	-	(1.3)	1.2	0.0	0.0
LONDON	▲	-	-	(1.3)	1.3	0.0	(0.0)
NORTH WEST	▲	-	-	(0.8)	0.8	0.0	0.0
WEST MIDLANDS	▼	-	-	(0.8)	0.7	0.0	(0.0)
<b>SMART METERING (£M CHANGE)</b>	▼	-	-	<b>(4.0)</b>	<b>3.9</b>	<b>0.0</b>	<b>-</b>
EAST OF ENGLAND	▼	-	-	(0.2%)	0.2%	0.0%	0.0%
LONDON	▼	-	-	(0.3%)	0.3%	0.0%	(0.0%)
NORTH WEST	▼	-	-	(0.2%)	0.2%	0.0%	0.0%
WEST MIDLANDS	▼	-	-	(0.2%)	0.2%	0.0%	(0.0%)
<b>SMART METERING (% CHANGE)</b>	▼	-	-	<b>(0.2%)</b>	<b>0.2%</b>	<b>0.0%</b>	<b>-</b>

- Had originally planned to submit cost plan in May-16
- This will now be deferred until later this year, missing the Nov-16 AIP
- Cost plan is still in development (expect update in Sep-16 MOD0186), but in interim have shown impact of deferred submission on revenue by logging costs up for an additional year



# Other Movements

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	(0.4)	0.6	0.3	(0.6)	(0.0)	(0.0)
LONDON	▼	(1.0)	0.2	(0.2)	(0.2)	(0.0)	(0.0)
NORTH WEST	▼	(0.9)	0.1	0.8	(0.1)	(0.0)	(0.0)
WEST MIDLANDS	▲	(0.3)	(0.7)	0.5	0.7	(0.0)	(0.0)
<b>OTHER MOVEMENTS (£M CHANGE)</b>	▼	<b>(2.6)</b>	<b>0.2</b>	<b>1.4</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>(0.1)</b>
EAST OF ENGLAND	▼	(0.1%)	0.1%	0.1%	(0.1%)	(0.0%)	(0.0%)
LONDON	▼	(0.2%)	0.1%	(0.0%)	(0.1%)	(0.0%)	(0.0%)
NORTH WEST	▼	(0.2%)	0.0%	0.2%	(0.0%)	(0.0%)	(0.0%)
WEST MIDLANDS	▲	(0.1%)	(0.2%)	0.1%	0.2%	(0.0%)	(0.0%)
<b>OTHER MOVEMENTS (% CHANGE)</b>	▼	<b>(0.1%)</b>	<b>0.0%</b>	<b>0.1%</b>	<b>(0.0%)</b>	<b>(0.0%)</b>	<b>(0.0%)</b>

- **Predominantly made up of final Theft of Gas net recoveries, final 2015/16 NIA expenditure, and collected revenue updates (detailed analysis can be see in the main MOD0186 report).**



# Sensitivity: FGO

NETWORK		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EAST OF ENGLAND	▼	-	-	(3.3)	(3.3)	(4.0)	(4.4)
LONDON	▼	-	-	(1.9)	(1.9)	(2.3)	(2.5)
NORTH WEST	▼	-	-	(2.2)	(2.2)	(2.7)	(3.0)
WEST MIDLANDS	▼	-	-	(1.6)	(1.6)	(2.0)	(2.2)
<b>FGO (£M CHANGE)</b>	▼	-	-	<b>(9.0)</b>	<b>(9.0)</b>	<b>(11.0)</b>	<b>(12.0)</b>
EAST OF ENGLAND	▼	-	-	(0.5%)	(0.5%)	(0.6%)	(0.7%)
LONDON	▼	-	-	(0.4%)	(0.4%)	(0.5%)	(0.6%)
NORTH WEST	▼	-	-	(0.5%)	(0.5%)	(0.6%)	(0.6%)
WEST MIDLANDS	▼	-	-	(0.5%)	(0.5%)	(0.6%)	(0.6%)
<b>FGO (% CHANGE)</b>	▼	-	-	<b>(0.5%)</b>	<b>(0.5%)</b>	<b>(0.6%)</b>	<b>(0.6%)</b>

- **Given previous discussions at DCMF re Uncertainty Measures, wanted to show order of magnitude of FGO change**
- **Caveated as based on Jan-16 cost plan submission**
- **Final regulatory treatment, business plan and cost allocations to be finalized (aim to update for Sep-16 MOD0186)**





# Formula Rates

- The formula rates liability is subject to cyclical review, with the next review period commencing April 2017.
- As of June 2016, draft rateable values have been supplied by the Valuation Office to Government.
- A key component in the calculation of NGG rateable values has been the treatment of replacement expenditure (repex).
- The RIIO GD-1 regime brings a shift in regulatory treatment for repex, moving from 50/50 in-year/RAV funding to 100% RAV funding by 2020/21. This has influenced the Valuation Office on their stance on the timing of the deductibility of repex for rates valuation calculation purposes. In previous review cycles, repex has been 100% deductible irrespective of regulatory treatment.
- Using information collected nationally for all ratepayers, Government will make a 'pence in pound' decision to achieve target revenue, through rates liabilities, later in the year (September).
- Additionally,



# Formula Rates

- **There are two notable uncertainties at this stage that will affect the ultimate financial outcome:**
  - 1. the pence in pound decision noted on the last slide**
  - 2. whether transitional (tapering) arrangements will apply which could limit the size of year-on-year step changes in rates bill**
- **Should this cost risk materialise, the impact to allowed revenue would hit in 2019/20 (due to 2 year lagging of cost pass through true up)**



# Anticipated Updates for Sep-16

- **Monthly RPI updates, and Aug-16 HMT Forecasts for UK Economy Report**
- **Post RRP Final 2015/16 and future forecast for Totex**
- **Updates on Smart and FGO Uncertainty Measures**
- **Development of Business Rates risk if available**
- **2016 Exit Capacity bookings – drives cost pass through & incentive**
- **Post RRP Final 2015/16 and future forecast for Shrinkage & Leakage volumes – drives Shrinkage Cost & Incentive + Environmental Emissions Incentive**
- **Post RRP Final 2015/16 and future forecast for Broad Measure of Customer Satisfaction Incentive**
- **Post RRP future forecast for NIA expenditure**
- **Review of 2016 AQ review data**