



Quarterly Revenue Forecast (MOD0186) March 2018

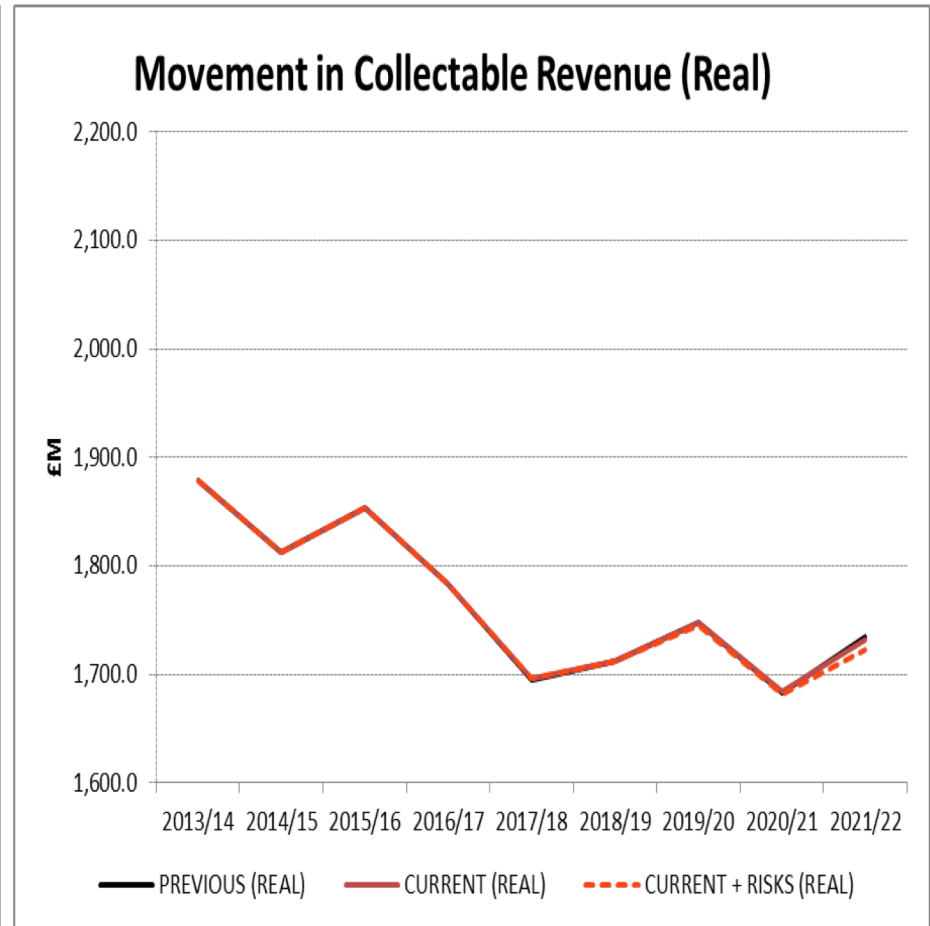
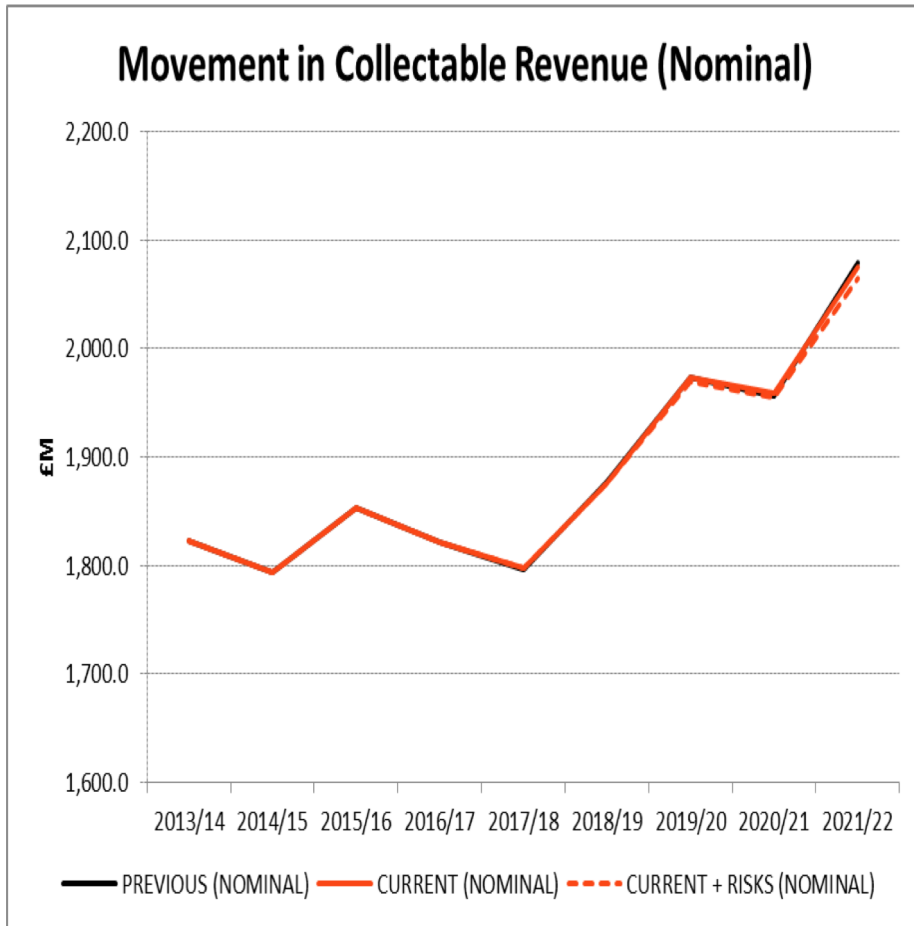
For DCMF on 27th March 2018

Cadent
Your Gas Network

Summary

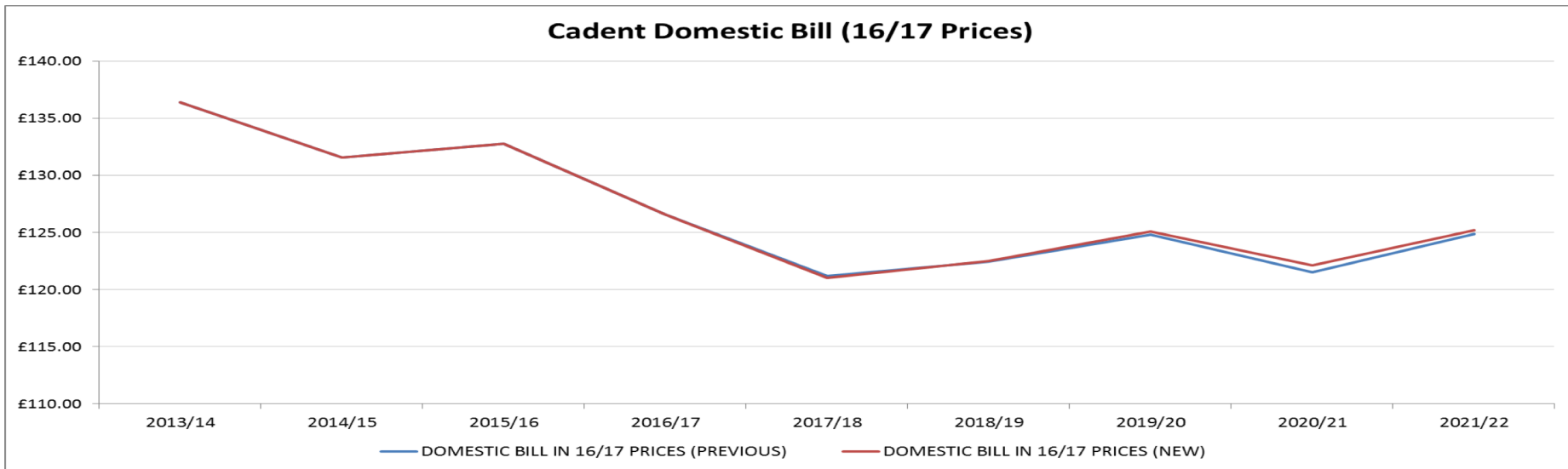
- Low level movement in March MOD0186 given that major updates have already been completed for the 2018/19 final charges.
- Headline change is the impact of inflation. A short term rise in inflation drives a £3.1m increase in collectable revenue across 2019/20 through to 2020/21, as a result of the 2 year lag. This is later offset by inflation tracking lower than previous forecasts in the medium term, which results in a £4m reduction in revenue in 2021/22.
- Latest internal forecasts indicate a £1.5m reduction in Network Innovation Allowance (NIA) for 2017/18. As a result of the 2 year lag, any in-year over recovery which will be repaid in 2019/20.
- Minor increases in Gas Price Reference Costs from 2017/18 onwards, have driven a £1.5m increase in revenue received through Shrinkage pass through costs and Incentive between 2019/20 and 2021/22.
- Alignment to 2018/19 NTS pension deficit charges has driven a £0.8m increase in 2 year lagged pass through costs.
- Final licence fee outturn for 2017/18 was £0.4m lower than the position indicated in Ofgems forward work plan, this will be repaid to shippers in 2019/20 as a result of the 2 year lag.
- The Supplier of Last Resort (SoLR) claim crystalized at £3.1m, after Ofgem confirmed a 55% split for Electricity and 45% for Gas. This is £0.4m lower than our previous forecasts.
- Subsequent to the Dec MOD0186, there has been an over recovery of £1.3m in 2017/18 largely driven by an increase in commodity collection, caused by the recent cold weather. This will be repaid to shippers in 2019/20.

Cadent Collectable Revenue Movement



Headline movement from December MOD0186

| HEADLINE MOVEMENT SINCE LAST REPORT | CADENT GAS LTD | | | | | | | | | |
|--|----------------|---------|---------|---------|---------|---------|---------|---------|---------|--|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | |
| COLLECTABLE REVENUE (PREVIOUS) | 1,823.3 | 1,793.5 | 1,853.6 | 1,821.8 | 1,796.3 | 1,876.3 | 1,973.0 | 1,956.6 | 2,079.0 | |
| MOVEMENT ▼ | - | - | - | - | 1.3 | (0.5) | (0.1) | 2.0 | (3.4) | |
| COLLECTABLE REVENUE (NEW) | 1,823.3 | 1,793.5 | 1,853.6 | 1,821.8 | 1,797.6 | 1,875.8 | 1,972.9 | 1,958.6 | 2,075.7 | |
| % MOVEMENT | - | - | - | - | +0.1% | (0.0%) | (0.0%) | +0.1% | (0.2%) | |
| DOMESTIC BILL IN 16/17 PRICES (PREVIOUS) | £136.40 | £131.54 | £132.79 | £126.55 | £121.17 | £122.43 | £124.82 | £121.52 | £124.87 | |
| MOVEMENT ▲ | - | - | - | - | (£0.13) | +£0.08 | +£0.25 | +£0.58 | +£0.35 | |
| DOMESTIC BILL IN 16/17 PRICES (NEW) | £136.40 | £131.54 | £132.79 | £126.55 | £121.04 | £122.51 | £125.07 | £122.10 | £125.21 | |



Summary Collectable Revenue trace

| COLLECTABLE REVENUE TRACE | | CADENT GAS LTD | | | | |
|--------------------------------|---|----------------|---------|---------|---------|---------|
| | | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| COLLECTABLE REVENUE (PREVIOUS) | | 1,796.3 | 1,876.3 | 1,973.0 | 1,956.6 | 2,079.0 |
| INFLATION | ▲ | - | - | 2.5 | 0.6 | (4.0) |
| NIA | ▼ | - | - | (1.5) | - | - |
| GAS PRICE REFERENCE COST | ▲ | - | - | 0.4 | 0.6 | 0.6 |
| PENSION DEFICIT COSTS | ▲ | - | - | - | 0.8 | - |
| SUPPLIER OF LAST RESORT | ▼ | - | (0.4) | - | - | - |
| LICENCE FEE | ▼ | - | - | (0.4) | (0.0) | 0.0 |
| OVER / UNDER RECOVERY | ▼ | 1.3 | (0.1) | (1.3) | 0.1 | - |
| OTHER MINOR CHANGES | ▲ | - | (0.0) | 0.2 | 0.0 | 0.0 |
| COLLECTABLE REVENUE (NEW) | | 1,797.6 | 1,875.8 | 1,972.9 | 1,958.6 | 2,075.7 |
| % MOVEMENT | | +0.1% | (0.0%) | (0.0%) | +0.1% | (0.2%) |

Collectable Revenue Trace: Inflation

| INFLATION | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------------------|----------|----------|--------------|--------------|---------------|
| EAST OF ENGLAND (£M) | ▲ | - | 0.8 | 0.2 | (1.3) |
| LONDON (£M) | ▲ | - | 0.6 | 0.1 | (1.0) |
| NORTH WEST (£M) | ▲ | - | 0.6 | 0.1 | (1.0) |
| WEST MIDLANDS (£M) | ▲ | - | 0.4 | 0.1 | (0.7) |
| CADENT (£M) | ▲ | - | 2.5 | 0.6 | (4.0) |
| EAST OF ENGLAND (%) | ▲ | - | +0.1% | +0.0% | (0.2%) |
| LONDON (%) | ▲ | - | +0.1% | +0.0% | (0.2%) |
| NORTH WEST (%) | ▲ | - | +0.1% | +0.0% | (0.2%) |
| WEST MIDLANDS (%) | ▲ | - | +0.1% | +0.0% | (0.2%) |
| CADENT (%) | ▲ | - | +0.1% | +0.0% | (0.2%) |

| HMT RPI FORECASTS | 2018 | 2019 | 2020 | 2021 | 2021 |
|--------------------------|-------|--------|--------|------|-------|
| LATEST FORECAST (FEB-18) | 3.5% | 3.0% | 3.0% | 3.1% | 3.1% |
| PREVIOUS (NOV-17) | 3.4% | 3.1% | 3.2% | 3.1% | - |
| CHANGE | +0.1% | (0.1%) | (0.2%) | - | +3.1% |

- Movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- Reflects actual RPI positions to Jan 2018, and HM Treasury ‘Forecasts for the UK Economy’ published February 2018
- Continuing to observe a rise in current year inflation, but a reduction in medium and long term inflation. This has a relatively modest impact to revenue this time round

Collectable Revenue Trace: NIA

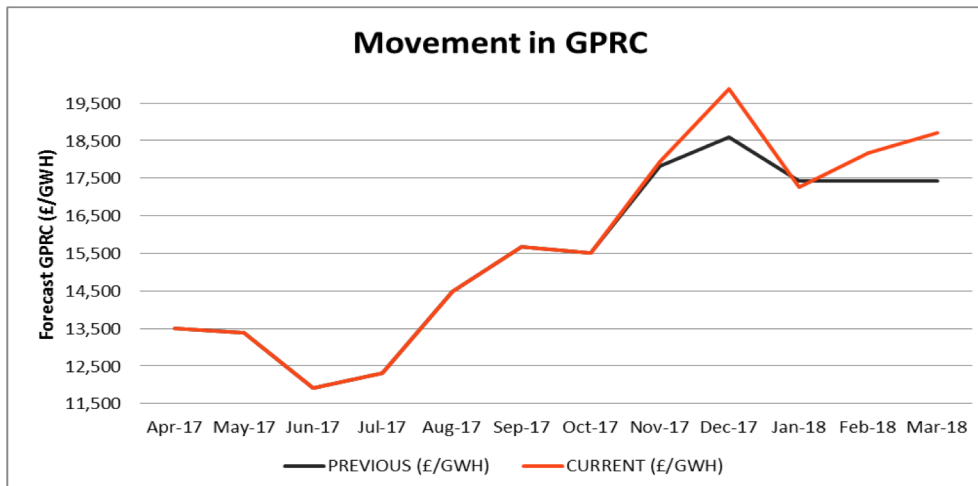
| NIA | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------------------|---|---------|---------------|---------|---------|
| EAST OF ENGLAND (£M) | ▼ | - | (0.5) | - | - |
| LONDON (£M) | ▼ | - | (0.3) | - | - |
| NORTH WEST (£M) | ▼ | - | (0.4) | - | - |
| WEST MIDLANDS (£M) | ▼ | - | (0.3) | - | - |
| CADENT (£M) | ▼ | - | (1.5) | - | - |
| EAST OF ENGLAND (%) | ▼ | - | (0.1%) | - | - |
| LONDON (%) | ▼ | - | (0.1%) | - | - |
| NORTH WEST (%) | ▼ | - | (0.1%) | - | - |
| WEST MIDLANDS (%) | ▼ | - | (0.1%) | - | - |
| CADENT (%) | ▼ | - | (0.1%) | - | - |

- Movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- Latest internal forecasts indicate a £1.5m reduction in Network Innovation Allowance (NIA) cost forecast for 2017/18
- This will create a in-year over recovery which will be repaid to shippers in 2019/20
- We have signposted potential further reductions in NIA as a risk and sensitivity item in the March MOD0186 report

Collectable Revenue Trace: GPRC

| GAS PRICE REFERENCE COST | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--------------------------|----------|----------|--------------|--------------|--------------|
| EAST OF ENGLAND (£M) | ▲ | - | 0.1 | 0.2 | 0.2 |
| LONDON (£M) | ▲ | - | 0.1 | 0.1 | 0.1 |
| NORTH WEST (£M) | ▲ | - | 0.1 | 0.1 | 0.1 |
| WEST MIDLANDS (£M) | ▲ | - | 0.1 | 0.1 | 0.1 |
| CADENT (£M) | ▲ | - | 0.4 | 0.6 | 0.6 |
| 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% |
| CADENT (%) | ▲ | - | +0.0% | +0.0% | +0.0% |

- Movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- Gas prices are continuing to increase having dipped earlier in the year
- This will in turn push up shrinkage costs, and pass through revenue
- It will also slightly increase the value of the Shrinkage Incentive
- Our GPRC forecasts are sourced from ICIS energy pricing reports



| GAS PRICE REFERENCE COST | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| PREVIOUS (£/GWH) | 13291 | 15448 | 15102 | 14818 | 15337 | 15873 |
| CURRENT (£/GWH) | 13291 | 15716 | 15478 | 15030 | 15556 | 16100 |
| Change (£/GWH) | - | 267 | 376 | 212 | 219 | 227 |
| % Change | - | +1.7% | +2.5% | +1.4% | +1.4% | +1.4% |

Collectable Revenue Trace: Pension Deficit

| PENSION DEFICIT COSTS | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|-----------------------|---|---------|---------|--------------|---------|
| EAST OF ENGLAND (£M) | ▲ | - | - | 0.3 | - |
| LONDON (£M) | ▲ | - | - | 0.2 | - |
| NORTH WEST (£M) | ▲ | - | - | 0.2 | - |
| WEST MIDLANDS (£M) | ▲ | - | - | 0.1 | - |
| CADENT (£M) | ▲ | - | - | 0.8 | - |
| EAST OF ENGLAND (%) | ▲ | - | - | +0.0% | - |
| LONDON (%) | ▲ | - | - | +0.0% | - |
| NORTH WEST (%) | ▲ | - | - | +0.0% | - |
| WEST MIDLANDS (%) | ▲ | - | - | +0.0% | - |
| CADENT (%) | ▲ | - | - | +0.0% | - |

- Movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- The pension deficit charges is a pass through cost levied on distribution networks (DN). To collect annual costs for the part funding of the deficit in the National Grid pension scheme (which includes former DN employees).
- Post sale there has been a sectionalisation of the pension pots. 2018/19 will be the last year this will be paid directly to the NTS, and from 2019/20 this will be funded directly through our Base Revenue
- Alignment to 2018/19 NTS pension deficit charges, has given rise to a small increase in 2 year lagged pass through costs

Collectable Revenue Trace: Supplier of Last Resort

| SUPPLIER OF LAST RESORT | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|-------------------------|----------|---------------|---------|---------|---------|
| EAST OF ENGLAND (£M) | ▼ | (0.1) | - | - | - |
| LONDON (£M) | ▼ | (0.1) | - | - | - |
| NORTH WEST (£M) | ▼ | (0.1) | - | - | - |
| WEST MIDLANDS (£M) | ▼ | (0.1) | - | - | - |
| CADENT (£M) | ▼ | (0.4) | - | - | - |
| EAST OF ENGLAND (%) | ▼ | (0.0%) | - | - | - |
| LONDON (%) | ▼ | (0.0%) | - | - | - |
| NORTH WEST (%) | ▼ | (0.0%) | - | - | - |
| WEST MIDLANDS (%) | ▼ | (0.0%) | - | - | - |
| CADENT (%) | ▼ | (0.0%) | - | - | - |

- Movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- We previously estimated Co-operative Energy Ltds (CEL) claim under the Supplier of Last Resort process (SoLR) to be £3.5m. This was based on a 25% share of the total £14m claim across all networks for Gas and Electricity, and an equal 50% split between Gas and Electricity
- Ofgem have subsequently confirmed a 55 % split for Electricity and 45% split for Gas, bringing the total value of the SoLR claim down to £3.1m. Whilst this does not have a particularly material impact, it is £0.4m lower than the position indicated within the Dec MOD0186 Report
- Any value collected via Transportation Charges will be paid back to Co-Op in a revenue neutral manner

Collectable Revenue Trace: Licence Fee

| LICENCE FEE | | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|----------------------|----------|----------|---------------|---------------|--------------|
| EAST OF ENGLAND (£M) | ▼ | - | (0.1) | (0.0) | 0.0 |
| LONDON (£M) | ▼ | - | (0.1) | (0.0) | (0.0) |
| NORTH WEST (£M) | ▼ | - | (0.1) | 0.0 | 0.0 |
| WEST MIDLANDS (£M) | ▼ | - | (0.1) | 0.0 | (0.0) |
| CADENT (£M) | ▼ | - | (0.4) | (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%) |
| CADENT (%) | ▼ | - | (0.0%) | (0.0%) | +0.0% |

- Note: movements are relative to the Dec-17 MOD0186 report, and expressed in nominal terms
- 2017/18 licence fees have crystallised £0.4m lower than the positions previously indicated in Ofgems forward work plan
- This reduction in pass through costs in 2017/18, materialises as a revenue impact in 2019/20 as a result of the 2 year lag
- Future forecasts have been held at the level indicated by Ofgem in their forward work plan

GD-2 Forecast (Base Revenue)

| 2009/10 PRICES | EE | LO | NW | WM | CADENT |
|--|--------------|--------------|--------------|--------------|----------------|
| 2020/21 BASE REVENUE | 496.2 | 347.2 | 360.6 | 270.0 | 1,474.0 |
| ADJ FOR BUSINESS RATES AT 2020/21 LEVEL | (2.4) | 16.4 | 10.0 | 6.1 | 30.2 |
| ADJ FOR LICENCE FEES AT 2020/21 LEVEL | (0.1) | (0.1) | (0.1) | (0.1) | (0.4) |
| ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL | (5.7) | (2.8) | (3.0) | (0.3) | (11.8) |
| ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL | (2.8) | (1.6) | (1.9) | (1.7) | (7.9) |
| TAX AT 17% | (6.1) | (4.3) | (4.5) | (3.5) | (18.4) |
| COST OF DEBT AT 0.99% | (31.1) | (23.3) | (22.0) | (16.8) | (93.2) |
| SMART UM DEFERRAL | 11.2 | 7.5 | 8.0 | 5.4 | 32.1 |
| 2020/21 ADJUSTED BASE REVENUE | 459.2 | 339.0 | 347.1 | 259.2 | 1,404.5 |
| NOMINAL (2021/22) | EE | LO | NW | WM | CADENT |
| 2020/21 BASE REVENUE | 715.1 | 500.4 | 519.7 | 389.1 | 2,124.3 |
| ADJ FOR BUSINESS RATES AT 2020/21 LEVEL | (3.4) | 23.7 | 14.4 | 8.9 | 43.5 |
| ADJ FOR LICENCE FEES AT 2020/21 LEVEL | (0.2) | (0.1) | (0.2) | (0.1) | (0.6) |
| ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL | (8.2) | (4.1) | (4.3) | (0.4) | (17.0) |
| ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL | (4.0) | (2.2) | (2.8) | (2.4) | (11.4) |
| TAX AT 17% | (8.7) | (6.2) | (6.5) | (5.1) | (26.5) |
| COST OF DEBT AT 0.99% | (44.8) | (33.6) | (31.7) | (24.2) | (134.3) |
| SMART UM DEFERRAL | 16.1 | 10.9 | 11.5 | 7.8 | 46.2 |
| 2020/21 ADJUSTED BASE REVENUE | 661.8 | 488.6 | 500.2 | 373.5 | 2,024.1 |

- Maintaining a position that updates 2020/21 base revenue for reasonably predictable movements

GD-2 Forecast (Allowed Revenue)

| NOMINAL (2021/22) | EE | LO | NW | WM | CADENT |
|--|--------------|--------------|--------------|--------------|----------------|
| 2020/21 ADJUSTED BASE REVENUE | 661.8 | 488.6 | 500.2 | 373.5 | 2,024.1 |
| PASS THROUGH | (13.1) | 19.9 | 8.9 | 4.8 | 20.5 |
| EXIT CAPACITY (INCENTIVE) | 7.9 | 3.7 | 5.2 | 1.9 | 18.8 |
| EXIT CAPACITY (COST PASS THROUGH) | (8.2) | (3.9) | (4.0) | (0.0) | (16.1) |
| SHRINKAGE INCENTIVE | 0.6 | 0.4 | 0.4 | 0.3 | 1.8 |
| SHRINKAGE COST PASS THROUGH | (4.3) | (2.5) | (3.0) | (2.6) | (12.5) |
| BROAD MEASURE OF CUSTOMER SATISFACTION | 5.0 | 3.5 | 3.6 | 2.7 | 14.9 |
| ENVIRONMENTAL EMISSIONS INCENTIVE | 4.0 | 2.4 | 2.7 | 2.2 | 11.3 |
| DISCRETIONARY REWARD SCHEME | - | - | - | - | - |
| NETWORK INNOVATION ALLOWANCE | 4.2 | 3.1 | 3.2 | 2.4 | 12.8 |
| UNDER / OVER COLLECTION B/F | - | - | - | - | - |
| 2021/22 MAXIMUM ALLOWED REVENUE | 658.0 | 515.3 | 517.2 | 385.2 | 2,075.7 |

- Allowed revenue forecasts after opening base revenue reflect 2 year lagged impacts from cost and incentive performance flowing in from 2019/20, as a continuation of the current regime
- The exception to this is NIA which has been assumed to continue as per RIIO GD-1, our forecast reflecting spend up to the 0.7% base revenue cap
- We will continue with this forecasting approach for the second year of GD-2 in the June MOD0186 Report

Risks and Sensitivities

- Crystallised previously trailed risk on NIA into the 2017/18 forecast, we will continue to track this as a risk item for remained of GD-1.
- Maintained position on the Smart Metering Uncertainty Mechanism, conservatively assumed to be deferred to GD-2. Note that GD-1 settlement in the final year is still possible. Risk of a cost reduction against our last RRP submission has been flagged within the risk and sensitivity section of the MOD0186 report. Next update will be available after our RRP submission in July 2018.
- We are likely to go back on the Streetworks Uncertainty Mechanism for East of England only during 2018. We may also seek reimbursement for additional Streetworks manager costs across all networks at the end of RIIO-GD1. We don't currently have a quantification for this, but will provide a further update as soon as this is available.
- A new claim under the Supplier of Last Resort (SoLR) process may be on the horizon for 2019/20. Future Energy ceased trading in January 2018 and Ofgem have appointed Green Start Energy as the SoLR to take on their 10,000 domestic customers.
- We are seeing a developing position from the current NTS charging methodology review that indicates potentially significant increases to GDN exit capacity prices in the long run. This will be driven by the adoption of the Capacity Weighted Distance model and the move away from commodity based revenue to capacity. Whether implementation is one stage or transitional will affect our view of revenue impact.