Smitha Coughlan

March 2018
MOD 186

Accompanying Narrative

Movement Since December 2017

		2017/18	2018/19	2019/20	2020/21	2021/22	Explanation
Reported at the last DCMF		403.23	430.11	475.36	456.17	436.48	
Pass Through	⇩		-0.80	0.05	0.00	0.00	2018/19 reflects the final adjustments made for the SoLR claim directed by Ofgem,. Other years reflect latest view of Business rates https://www.ofgem.gov.uk/publications-and-updates/last-resort-supplier-payment-claim-co-operative-energy-final-decision
RPI	⇩			0.03	0.03	0.01	Updated for forecast RPI for 2017/18
Collected Revenue	⇩			-1.51	-0.83	0.00	Increased collection for 2017/18 and also slight increase on 2018/19 forecast as a result of the December data fixes by Xoserve
NTS Price	⇧			0.04	0.00	0.00	No adjustment to price or volume, simply an amended rounding in the modelling
Gas Prices	⇧			-0.43	-0.54	0.03	The NBP has fallen over the quarter (however March saw day ahead prices breach 200p/th which is not reflected. Forecasts have reduced back to pre Beast from the East norms
SLM	⇩			0.00	0.34	0.35	Reflects revised forecasts for 2018/19 used for Initial assessment published https://www.gasgovernance.co.uk/Shrinkage/18-19final
Environmental	⇩			0.00	0.00	-0.63	
Reported in the latest MOD186	⇧	403.2	429.31	473.53	455.17	436.25	
Net Movement	⇧	-	-0.8	-1.83	-1.00	-0.24	

2021/22

GDNs are required to forecast the current years Maximum Allowed Revenue and forecasts for the following four years. This therefore requires forecasts into the next price control. The price control settlement remains at an early stage of development therefore the forecast provided is done with respect of a number of key assumptions which may result in a materially different allowance.

Basic assumptions made in arriving at 2021/22

1. NIA allowance forecast to continue in its current form
2. No change in regulatory treatment for depreciation, cost of debt or equity
3. Inflation uplifts to remain linked to RPI
4. Cost true ups and Incentives relating to RIIO GD1 will be payable/receivable in T+2, therefore 2021/22 reflects the performance from 2019/20
5. Base Revenue (PUt) set in line with method communicated in June DCMF

The latest consultation relating to RIIO GD2 has been published by Ofgem and is available:
https://www.ofgem.gov.uk/news-blog/our-blog/tougher-price-controls-energy-networks

Exit Capacity

We reiterate the significant uncertainty which persists both:

1. Through the current price control relating to:
    1. The demand and supply inputs in the Long Run Marginal Cost (LRMC) model
    2. The allowed revenue volatility of NTS - https://www.gasgovernance.co.uk/ntscharges/LTrevenue

2. From 2019:
    1. The requirements of the EU TAR code will result in amended charging regime from NTS. MOD0621, and the pre work which preceded it have been two years in the making and expect to be finalised for Panel in May 2018
    2. WWU has raised an alternative proposal to the modification 0621D which can be found:

    https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-03/Modification%200621D%20V2.0%20%28change%20marked%29.pdf

    – This seeks to remove the Short haul tariff, which currently results in a larger proportion of NTS costs being levied on the DN consumer; and

    – A variant on the Capacity Weighted Distance which places less weight on distance which should reduce the cost borne by those on the periphery of the network, most notably Scotland

Important Notice

This information is submitted in fulfilment of the UNC in that forecast allowed revenue must be shared. No representation as to the accuracy of forecast information or any other information is made in this report. These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This document should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment. It should be noted that auditors have not reviewed the information in this document.

Furthermore certain information presented is done so to maintain consistency between networks, most notably RPI forecasts which reflect the latest published view by HM Treasury and consequently can be different from the expected outturn internally which may use other information to inform forecasting.

Thank you

Smitha Coughlan

Pricing and Regulation Manager

Smitha.coughlan@wwutilities.co.uk

WALES&WEST UTILITIES