Smitha Coughlan

# June 2018
# MOD 186

## Accompanying Narrative

# Movement Since March 2018

| | | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Explanation |
|---|---|---|---|---|---|---|---|
| Reported at the last DCMF | | 429.31 | 473.53 | 455.17 | 436.25 | | |
| Exit Capacity Allowed Revenue | ⇩ | | | -15.68 | | | Previous forecast assumption that WWU would request an increase to Exit capacity allowed revenue this year for 20/21. This assumption has now been removed. |
| RPI | ⇧ | | 1.10 | 1.13 | 0.45 | | Updated for forecast RPI for 2018/19. |
| MODt | ⇧ | | 12.91 | 0.36 | 0.66 | | Updated Cost of Debt following email from Andrew Ryan dated 14 March 18. We have applied in the May 2018 window for a total amount of £19.4m (£15.4m 09/10 prices) for Enhanced Physical Site Security Costs that we have incurred. This impacts revenue in 19/20 onwards. |
| NTS Costs | ⇩ | | 0.00 | -6.97 | -20.34 | | Updates to NTS final and indicative prices for October 18 onwards have caused a £6.97m reduction in collectable revenue in 19/20 and £20.34 reduction in 20/21. See later slide. |
| Gas Prices | ⇩ | | 0.26 | -0.36 | -0.19 | | Gas prices in March were higher than expected due to the cold weather “Beast from the East". On the curve forecast has dropped slightly. |
| Forecast RPI | ⇩ | | -0.68 | -1.07 | -0.24 | | Forecast RPI has decreased for 2 years slightly then increased slightly, which means that revenue reduces for 19/20 and 20/21. |
| Collected Revenue | ⇩ | | -0.60 | 0.00 | 0.00 | | Updated collected revenue for 17/18 (£379m went to £380m for transportation) therefore higher over collection - this changes k in 19/20. |
| Reported in the latest MOD186 | | 429.31 | 486.53 | 432.58 | 416.59 | 440.28 | |
| Net Movement | ⇩ | 0 | 13.00 | -22.6 | -19.66 | | |

# 2021/22 and 2022/23

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 and 2022/23

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 and 2022/12 reflects 2020/21.
5. Base Revenue (PUt) set in line with method communicated in June 2017 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

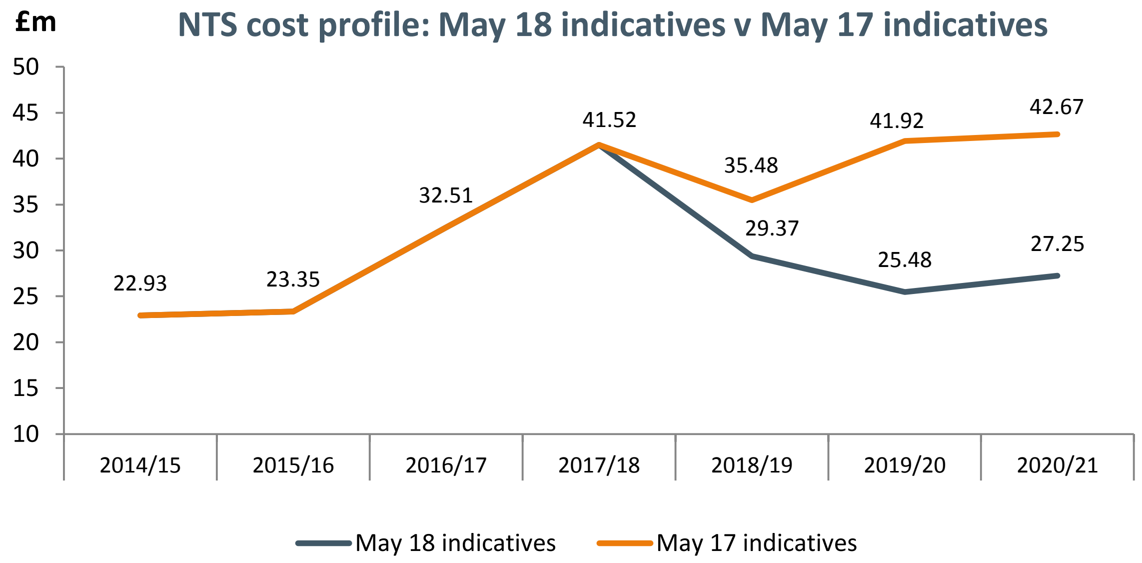
2. From 2019:
    1. The requirements of the EU TAR code will result in amended charging regime from NTS. MOD0621, and the pre work which preceded it have been two years in the making.
    2. WWU has raised an alternative proposal to the modification 0621D which can be found:

    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

# Exit Capacity

Throughout RIIO GD1 WWU has experienced both volatile prices for the cost of off taking gas from the NTS within our network; and a failure of the NTS to accurately forecast these changes in advance. The most recent prices published in May 2018 show another significant shift for the costs faced by WWU:




Such dramatic changes make it hard to minimise the cost adjustment which forms part of the revenue allowance in each year.

The consequence of this is a continuation of volatile exit capacity charges passed on through our charging.

# 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