

# January 2022 MOD 186

## Accompanying Narrative



# Movement Since September 2021

		2021/22	2022/23	2023/24	2024/25	2025/26	Explanation
Reported at the last DNCFM		447.3	476.0	459.4	464.4	460.8	
CMA updates	↑	-	8.1	4.4	3.9	3.5	Amendments to totex allowances and Cost of Equity through removal of the 0.25% outperformance rate
Ofgem updates to finance inputs	↑	-	3.4	1.4	1.8	2.3	Includes Ofgem amendments to RPE growth rate, cost of debt and SONIA. WACC and return on RAV increases as a result
Gas price	↑	-	13.9	1.8	0.3	0.4	Significant increases in shrinkage due to price volatility
SOLR claims	↑	-	104.6	26.1	-	-	See additional comments
Exit and other pass through	↓	-	(1.9)	(0.5)	(0.4)	(0.4)	Adjustment to exit volumes from October 21
Super Deductions	↓	-	(8.0)	-	-	-	Introduction of new legislation resulting in super deduction capital allowances for qualifying plant and machinery. Methodology agreed with Ofgem September 21
Inflation	↑	-	14.5	14.4	15.0	15.5	Significant movement in forecast inflation as per the October OBR inflation forecast
Reported in the latest MOD186		447.3	610.6	507.0	485.1	482.1	
Net Movement	↑	-	134.7	47.6	20.7	21.3	

# Additional Comments

- **SOLR Claims**

SOLR claims were included in the latest revenue forecast within miscellaneous pass through costs, being £104.6m in 2022/23 and £26.1m in 2023/24, reflecting Ofgem's approach (these are indicative values). However, this treatment is currently non-compliant with SSC A48 of the Gas Transporter licence and we have advised Ofgem of this. Ofgem are seeking licence amendments to remove such potential non-compliance. The forecast assumes that valid SOLR claims will be received by WWU from 31 October 2021 to 31 December 2021 and that appropriate modifications to the licence will be implemented to ensure inclusion of these claims is compliant. Discussions with Ofgem and distribution networks on this matter are ongoing.

SOLR charging methodology will be dependent on Ofgem's decision regarding a number of UNC Modifications Consultations. These include MODs 687V, 0797 and 0795. A decision is expected before the 20 January 2022.

- **January Republication**

We have submitted notification request to Ofgem for republication of the GD2 PCFM. Differences between the MOD 186 published in December and our requested updates are as follows:

- £4.5m of bad debt pass through added to 2022/23 allowed revenues (included as a risk / sensitivity in December MOD 186)
- £16.4m additional pass through allowance in 2022/23 as a result of updated shrinkage forecast for 2021/22 and 2022/23
- SOLR claims have been provisionally removed until licence modifications are finalised.

# 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

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