

20 June 2022  
MOD 186

## Accompanying Narrative



# Movements Since 21 March 2022

		2021/22	2022/23	2023/24	2024/25	2025/26	Explanation
		£'m nominal					
Reported at the last DNCMF (21 March 2022)		447.3	610.7	538.9	489.7	501.7	
Bad debt	↓			(0.8)			Reduction in transportation bad debt provision based on latest forecasts.
Xoserve	↓			(0.3)	0.2		Updated CDSP charges based on Xoserve Business Plan 2022.
Prescribed rates	↓			(2.3)			Updated business rates following latest rates review.
Shrinkage	↓			(25.7)	2.6	0.1	Significant volatility in the wholesale gas price market.
Inflation	↑			37.7	17.4	17.2	Updates to reflect actual monthly inflation to 31 March 2022 and annual OBR inflation projections.
Reported in the latest MOD186 (20 June 2022)		447.3	610.7	547.5	509.9	519.0	
Net Movement	↑	-	-	8.6	20.2	17.3	



# Additional Comments

- **Shrinkage**

The updated shrinkage forecast largely reflects movements in average cost per therm between the date of the last DNCFM (21st March 2022) and the current DNCFM (20th June 2022). Due to the geo-political tensions in Ukraine, this forecast is, and is expected to continue to be, highly volatile. The current forecast reflects prices as at 1st June 2022.

For reference, wholesale gas prices at the time of the March DNCFM were averaging above 400p/therm throughout 2022. As at 1st June 2022 this average has now fallen to nearer 200p/therm, significantly reducing shrinkage costs and therefore Allowed Revenue estimations for 2023/24.

- **Inflation**

Inflation projections have been updated in line with the latest available inflation indices. Actual monthly CPIH and RPI per ONS data and annual projected CPI and RPI inflation per the OBR latest projections published on 23<sup>rd</sup> March 2022. The increases in actual and projected inflation results in a significant increase in Allowed Revenue across the price control. Although inflation projections are sourced from OBR projections (Ofgem uses OBR projections in setting allowed revenues in GD2), no assurance can be given that these projections are materially accurate projections of actual realised inflation nor that OBR projections are the best available evidence of eventual realised inflation.

# 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.

Thank you

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