

19 September 2022  
MOD 186

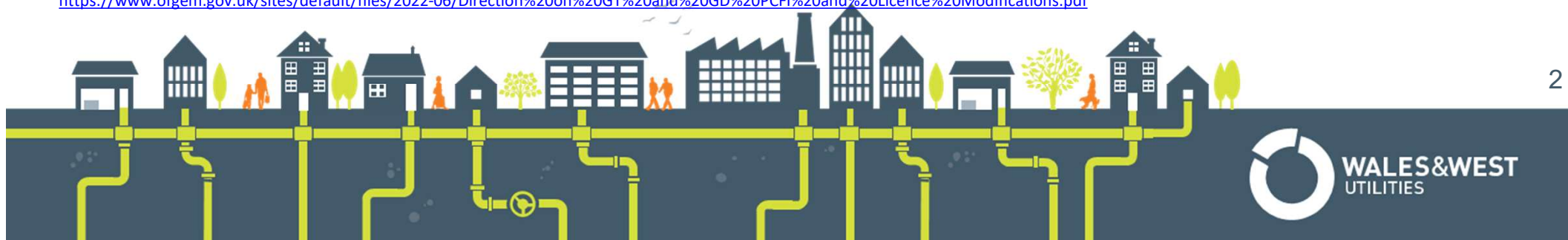
Accompanying Narrative



# Movements Since 20 June 2022

		2021/22	2022/23	2023/24	2024/25	2025/26	Explanation	
		<b>£'m nominal</b>						
Reported at the last DNCMF (20 June 2022)		447.3	610.7	547.5	509.9	519.0		
PCFM amendment to remove BDt from Pass-Through costs and include as an adjustment to RRT	↓	(2.8)	0.7	(4.6)			PCFM template amended by Ofgem to remove transportation bad debt (BDt) from pass through costs and to include amounts as an adjustment to Recovered Revenue (RRT) on a cash basis	
RRP Totex updates (variant allowances, actual Totex and tax pool allocations)	↑	-	-	(3.6)	4.9	1.6	Updates to Variable Values in respect of Price Control Deliverables, Uncertainty Mechanisms, actual Totex and associated tax pool allocations have been made to reflect WWU's 2021/22 RRP	
Shrinkage costs	↑			6.3	0.2	7.8	Updated shrinkage gas price as at 5th July 2022 to reflect the forecast shrinkage costs that were included in WWU's RRP	
Exit capacity charges	↓			(11.2)	2.1	(3.1)	Updated exit capacity charges to reflect the latest rates per NTS, that were included in WWU's RRP <sup>2</sup>	
Other pass through costs	↓	-	-	(7.6)	(2.2)	(1.2)	Updated licence fee, business rates, pension costs and Xoserve charges, to reflect latest forecasts, that were included in WWU's RRP	
Supplier of Last Resort (SoLR)	↓	-	-	(29.3)			Absent any SoLR claims being received to date or any guidance from Ofgem, the original forecast for 2023/24 SoLR costs have been removed for the time being	
Incentives and Other Revenue Allowances (ORAs)	↑	-	-	5.1	1.8	0.1	Updated Incentives and ORAs have been included in line with WWU's latest RRP. The main driver is Customer Satisfaction Survey ODI (CST) now being included within the PCFM, slightly offset by reduced Network Innovation Allowances	
Tax allowances	↑	-	-	0.8	3.8	4.4	General and special rate pool opening balance adjustments as at 1 April 2024 have been reflected within the PCFM for the first time to reflect the lower tax written down values as a result of super-deductions for tax together with adjustments for the super-deductions claimed and tax clawback	
K Correction Factor	↑	-	-	21.2			WWU forecast a significant under recovery of revenues in 2022/23 which are being adjusted via K Correction Factor in 2023/24 following Ofgem's rejection of a mid-year price change in 2022/23 to adjust the position	
Inflation	↑	-	-	17.4	8.7	8.8	Updates to reflect actual monthly inflation to 30 June 2022 and annual OBR forecasts per the latest published PCFM issued by Ofgem on 22 July 2022	
Reported in the latest MOD186 (19 September 2022)		444.6	611.4	541.9	529.2	537.6	1. For further information see Ofgem's decision letter in respect of Modifications of the special conditions of the Gas Transporter licence (link below) 2. RRP is the Regulatory Reporting Pack for 2021/22 submitted to Ofgem	
Net Movement	↑	(2.8)	0.7	(5.6)	19.3	18.5		

<https://www.ofgem.gov.uk/sites/default/files/2022-06/Direction%20on%20GT%20and%20GD%20PCFI%20and%20Licence%20Modifications.pdf>



# Additional Comments

- **RRP Updates**

There are numerous updates to the September forecasts in respect of Variable Values updated as part of the 2021/22 RRP, including Totex, pass-through costs, Incentives and ORAs and tax allowances.

- **Shrinkage**

The updated shrinkage forecast reflects price movements from 1<sup>st</sup> June 2022 to July 2022. Due to the geo-political tensions in Ukraine, this forecast is highly volatile. The current forecast reflects prices as at 5th July 2022, and as reflected in WWU's 2021/22 RRP.

- **Under recovery 2022/23**

A significant under collection of allowed revenues is forecast for 2022/23 and in the absence of a mid-year price change to adjust prices accordingly, the under recovery is adjusted through the K Correction Factor in 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 30<sup>th</sup> June 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

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Thank you

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