



December 2023 MOD0186

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Key Updates for Cadent's December 2023 MOD0186

Since the September MOD0186 report the key changes are as follows:

November OBR economic forecast

The November OBR economic forecast has been published which materially impacts allowances and revenue due to updates in inflation assumptions. This has also been reflected in Ofgem's cost of capital allowances and Real price effects (RPEs) modelling which also impacts our allowances.

Pass through costs

Shrinkage costs remain volatile and we have updated for our latest forecast. We have also updated our forecasts for Pension Scheme Established Deficit (PSED) and Supplier Of Last Resort (SOLR) following Ofgem's latest guidance.

Totex allowances

We have updated our totex allowances to reflect Ofgem's directions on our Uncertainty Mechanism re-openers.

Other

We have also included the December demand picture for SOQ in our assessment of unit prices. The overall demand picture shows a significant reduction relative to December 2022 data impacting unit prices.

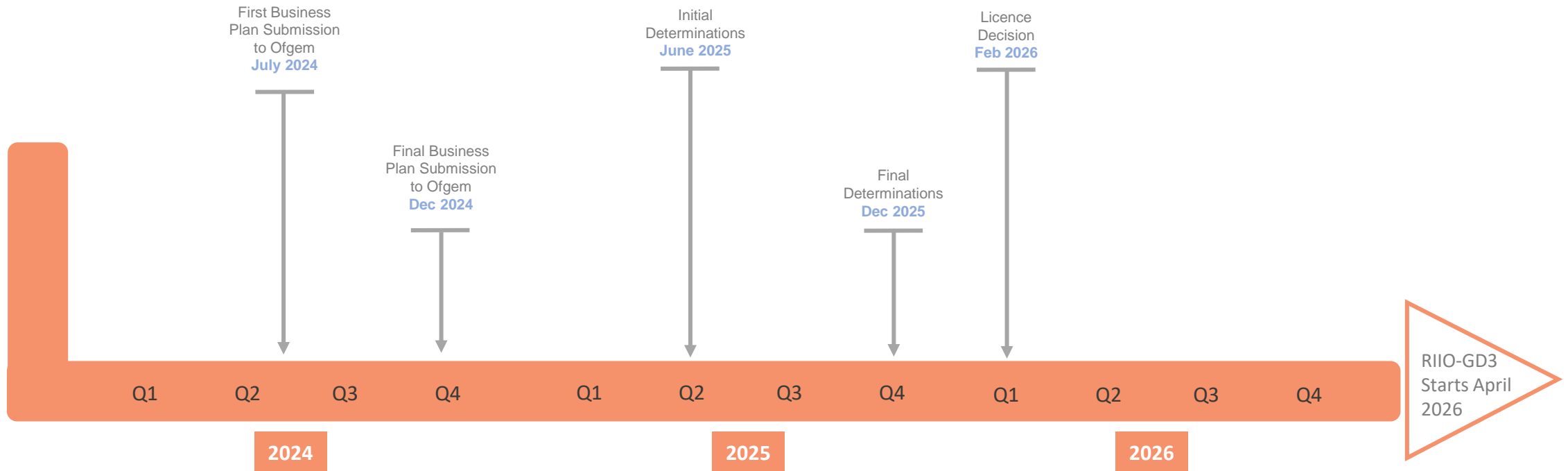
Movement in forecast Allowed Revenue

CADENT	24/25	25/26
MOD0186 - Sept '23	2,070.8	2,280.7
Inflation true-up	70.0	102.0
Cost of capital	16.1	14.8
Totex allowances	(3.8)	(5.3)
Pension Scheme Established Deficit repair	(9.2)	(9.2)
Other pass through costs	13.9	(6.1)
Tax allowance	(22.8)	(12.2)
Adjustment term	(34.9)	(7.7)
Other	(0.3)	(0.6)
MOD0186 - Dec '23	2,099.9	2,356.6

Overview

- **Inflation:** Latest release of November'23 OBR forecast has been updated (including real price effects).
- **Cost of capital:** Ofgem index the cost of capital annually. The increase reflects the higher rates environment in 2023. The cost of debt calculation include the latest iBoxx indices, and the cost of equity includes the latest view of yields from UK government securities.
- **Pass through costs:** Updates to Shrinkage, prescribed rates, Pension Scheme Established Deficit (PSED) and SOLR have been included.
- **Tax:** Updated tax position
- **Adjustment term:** Adjustments in relation to current year

High Level RII03 Timeline



Appendix



DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
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TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE

ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	646.1	921.5	811.9	719.6	813.1
TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)	%		(3.2)%	(1.2)%	6.2%	3.9%	8.5%
TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE	%		161.5%	61.4%	(42.5)%	(17.6)%	89.4%
TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE	%		1.3%	42.6%	(11.9)%	(11.4)%	13.0%

TABLE 2: ALLOWED REVENUE COMPOSITION

BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	594.7	747.8	649.2	591.1	601.2
TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.6	2.5	3.1	3.2
BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	0.2	0.2	0.2	0.2
OTHER REVENUE ALLOWANCES	ORAt	18/19	5.5	4.7	5.2	14.4	14.5
OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	600.2	753.4	657.2	608.9	619.2

FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	<i>PIt / PI2018/19</i>		1.053	1.119	1.241	1.292	1.314
INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	31.5	89.6	158.5	177.7	194.4
TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	631.8	842.9	815.7	786.6	813.7

ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(0.5)	48.4	(5.9)	(68.7)	-
CORRECTION TERM; K FACTOR	Kt	NOMINAL	2.3	(0.1)	2.6	-	-
LEGACY REVENUE	LARt	NOMINAL	12.5	30.3	(0.5)	1.7	(0.5)
ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	646.1	921.5	811.9	719.6	813.1

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
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TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE

ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	468.4	651.1	514.5	519.1	567.4
TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)	%		4.0%	5.6%	(10.6)%	15.6%	6.0%
TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE	%		78.7%	47.9%	(41.6)%	(14.5)%	89.9%
TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE	%		1.6%	39.0%	(21.0)%	0.9%	9.3%

TABLE 2: ALLOWED REVENUE COMPOSITION

BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	428.8	522.0	449.0	422.5	427.1
TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	1.0	1.7	2.4	2.8
BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
OTHER REVENUE ALLOWANCES	ORAt	18/19	3.2	2.6	2.9	8.1	8.2
OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	432.0	525.6	453.6	433.1	438.1

FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	<i>PIt / PI2018/19</i>		1.0525	1.1189	1.2412	1.2919	1.3140
INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	22.7	62.5	109.4	126.4	137.6
TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	454.6	588.0	563.0	559.5	575.6

ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	0.8	35.1	(44.7)	(35.4)	-
CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.7	(2.3)	3.2	-	-
LEGACY REVENUE	LARt	NOMINAL	11.3	30.3	(7.1)	(5.0)	(8.2)
ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	468.4	651.1	514.5	519.1	567.4

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
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TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE

ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	453.2	640.5	589.0	488.5	557.9
TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)	%		(5.5)%	3.0%	7.4%	(2.9)%	10.0%
TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE	%		(4.1)%	22.5%	(28.2)%	(23.4)%	92.9%
TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE	%		(4.9)%	41.3%	(8.0)%	(17.1)%	14.2%

TABLE 2: ALLOWED REVENUE COMPOSITION

BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	414.0	521.0	458.8	408.5	413.2
TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.1	2.3	2.3	2.4
BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
OTHER REVENUE ALLOWANCES	ORAt	18/19	3.7	3.1	3.5	9.6	9.7
OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	417.7	524.2	464.5	420.4	425.3

FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	<i>PIt / PI2018/19</i>		1.0525	1.1189	1.2412	1.2919	1.3140
INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	21.9	62.3	112.0	122.7	133.5
TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	439.6	586.6	576.5	543.1	558.8

ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(2.0)	33.9	1.2	(54.4)	-
CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.7	2.6	11.8	-	-
LEGACY REVENUE	LARt	NOMINAL	13.9	17.5	(0.6)	(0.3)	(0.9)
ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	453.2	640.5	589.0	488.5	557.9

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
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TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE

ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	338.1	484.0	415.0	372.8	418.2
TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)		%	(7.0)%	3.8%	0.4%	5.9%	8.2%
TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE		%	30.0%	39.4%	(43.4)%	(7.2)%	92.2%
TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE		%	(3.9)%	43.1%	(14.2)%	(10.2)%	12.2%

TABLE 2: ALLOWED REVENUE COMPOSITION

BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	318.6	398.4	343.6	311.5	315.7
TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.1	1.1	1.8	1.8
BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
OTHER REVENUE ALLOWANCES	ORAt	18/19	2.7	2.3	2.6	7.0	7.1
OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	321.3	400.8	347.3	320.2	324.6

FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	<i>Pit / PI2018/19</i>		1.0525	1.1189	1.2412	1.2919	1.3140
INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	16.9	47.6	83.8	93.5	101.9
TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	338.2	448.5	431.0	413.7	426.5

ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(1.6)	28.5	(16.6)	(35.9)	-
CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.4	0.9	1.4	-	-
LEGACY REVENUE	LARt	NOMINAL	0.1	6.1	(0.9)	(5.0)	(8.2)
ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	338.1	484.0	415.0	372.8	418.2