



MOD0186 Report June 2017

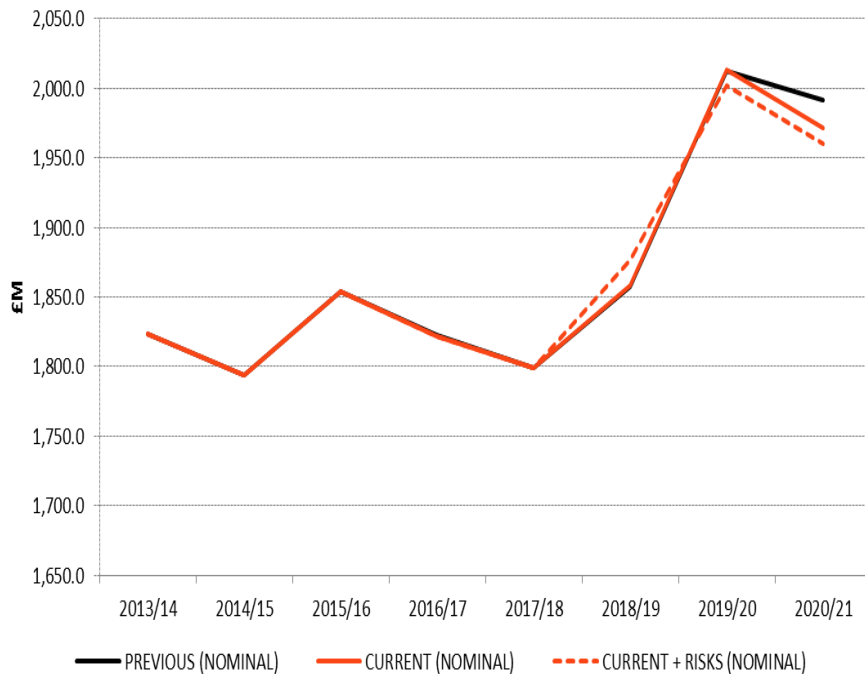
Cadent
Your Gas Network

Headline Movements in Collectable Revenue

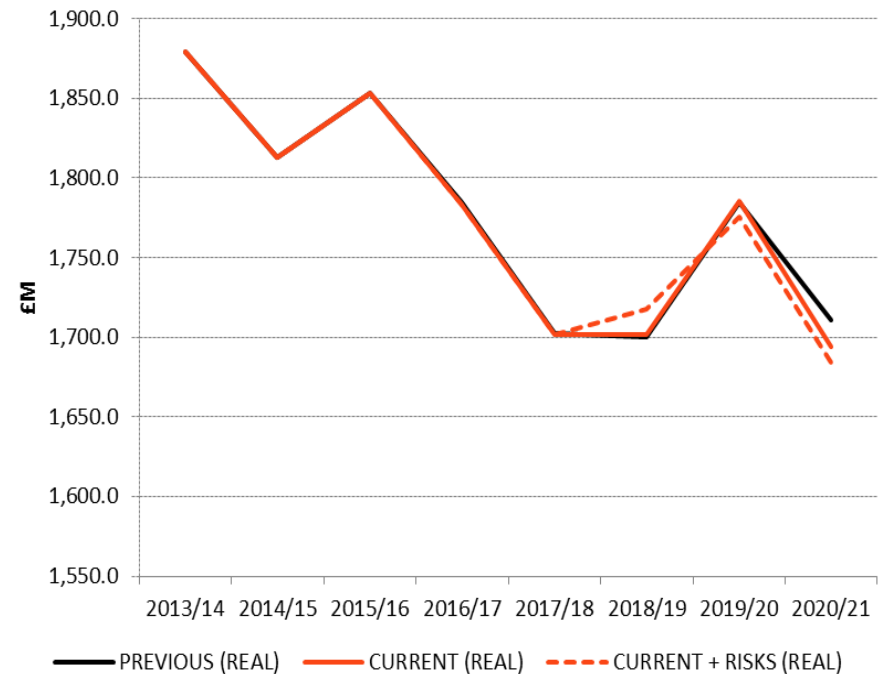
- Forecast for business rates has reduced resulting in reductions to revenue of £20m across the tail end of RIIO GD-1
- Updates in final and indicative NTS Exit Capacity prices have caused a £3.6m increase in collectable revenue in 2019/20, but a £12.4m decrease in collectable revenue in 2020/21
- Final NIA costs for 2016/17 were £3.4m lower than previously forecast, creating an in-year over recovery which will be repaid in 2018/19
- Final licence fee outturn for 2016/17 was £2.1m lower than the position indicated by Ofgem's forward work plan, resulting in reductions to revenue in 2018/19
- We are continuing to observe the trend of increasing inflation, which has resulted in a £14m increase in collectable revenue across the final 3 years of RIIO GD-1
- The June 2017 MOD0186 report includes a forecast for the first year of RIIO GD-2 (2021/22) details of which are included in later slides

Cadent Collectable Revenue Movement

Movement in Collectable Revenue (Nominal)



Movement in Collectable Revenue (Real)



- Reduction in collectable revenue from previous forecast is mainly driven by business rates, and NTS exit capacity costs

Collectable Revenue Trace

COLLECTABLE REVENUE TRACE		CADENT GAS LTD							
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
COLLECTABLE REVENUE (PREVIOUS)		1,823.3	1,793.5	1,853.6	1,822.9	1,799.3	1,857.6	2,012.4	1,991.0
INFLATION	▲	-	-	-	-	-	5.6	5.8	2.6
NTS EXIT CAPACITY RATE UPDATES	▼	-	-	-	-	-	-	3.6	(12.4)
BUSINESS RATES	▼	-	-	-	-	-	(0.3)	(9.3)	(9.6)
LICENCE FEE	▼	-	-	-	-	-	(2.1)	(0.0)	(0.0)
NIA COST FORECAST	▼	-	-	-	-	-	(3.2)	(0.2)	-
GAS PRICE REFERENCE COST	▼	-	-	-	-	-	(0.4)	0.2	0.1
OVER / UNDER RECOVERY	▲	-	-	-	(1.2)	(0.3)	1.2	0.3	-
OTHER MINOR CHANGES	▲	-	-	-	-	(0.0)	0.0	0.0	-
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,821.7	1,799.1	1,858.5	2,012.7	1,971.8
% MOVEMENT		-	-	-	(0.1%)	(0.0%)	+0.0%	+0.0%	(1.0%)

Collectable Revenue Trace: Inflation

- Positions shown are relative to Mar-17 MOD0186.
- They reflect actual RPI positions to Apr 2017.
- Due to the General Election, no HM Treasury 'Forecasts for the UK Economy' are available until 21st June
- We are continuing to observe a trend of increasing inflation

INFLATION		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	-	1.9	1.9	0.9
LONDON (£M)	▲	-	1.4	1.4	0.6
NORTH WEST (£M)	▲	-	1.4	1.4	0.6
WEST MIDLANDS (£M)	▲	-	1.0	1.0	0.5
CADENT (£M)	▲	-	5.6	5.8	2.6
EAST OF ENGLAND (%)	▲	-	+0.3%	+0.3%	+0.1%
LONDON (%)	▲	-	+0.3%	+0.3%	+0.1%
NORTH WEST (%)	▲	-	+0.3%	+0.3%	+0.1%
WEST MIDLANDS (%)	▲	-	+0.3%	+0.3%	+0.1%
CADENT (%)	▲	-	+0.3%	+0.3%	+0.1%

LATEST ACTUAL / PROJECTED RPI
Mar-17
May-17
Change

2016/17	2017/18	2018/19	2019/20	2020/21
2.0%	3.5%	3.4%	3.2%	3.2%
2.1%	3.5%	3.3%	3.2%	3.2%
+0.2%	+0.0%	(0.0%)	-	-

Collectable Revenue Trace: Business Rates

- Business Rates cost forecasts have reduced from a combination of a softening in the pence to the pound decision and an assumed inflationary impact that did not materialise
- This has resulted in a £19.1m reduction in pass through costs in 2018/19 through to 2020/21 as a result of the 2 year lag.

BUSINESS RATES		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	-	(0.1)	(9.9)	(10.2)
LONDON (£M)	▲	-	(0.1)	2.7	2.8
NORTH WEST (£M)	▼	-	(0.1)	(1.3)	(1.4)
WEST MIDLANDS (£M)	▼	-	(0.0)	(0.8)	(0.8)
CADENT (£M)	▼	-	(0.3)	(9.3)	(9.6)
EAST OF ENGLAND (%)	▼	-	(0.0%)	(1.5%)	(1.5%)
LONDON (%)	▲	-	(0.0%)	+0.6%	+0.6%
NORTH WEST (%)	▼	-	(0.0%)	(0.3%)	(0.3%)
WEST MIDLANDS (%)	▼	-	(0.0%)	(0.2%)	(0.2%)
CADENT (%)	▼	-	(0.0%)	(0.5%)	(0.5%)

Collectable Revenue Trace: Licence Fee

- Final 2016/17 licence fees were £2.1m lower than the positions previously indicated in Ofgem's forward work plan
- The reduction in pass through costs will materialise as a revenue impact in 2017/18 as a result of the 2 year lag
- Future forecasts have been held at the level indicated by Ofgem in their forward work plan

LICENCE FEE		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	-	(0.8)	(0.0)	(0.0)
LONDON (£M)	▼	-	(0.4)	0.0	0.0
NORTH WEST (£M)	▼	-	(0.5)	(0.0)	(0.0)
WEST MIDLANDS (£M)	▼	-	(0.4)	(0.0)	(0.0)
CADENT (£M)	▼	-	(2.1)	(0.0)	(0.0)
EAST OF ENGLAND (%)	▼	-	(0.1%)	(0.0%)	(0.0%)
LONDON (%)	▼	-	(0.1%)	+0.0%	+0.0%
NORTH WEST (%)	▼	-	(0.1%)	(0.0%)	(0.0%)
WEST MIDLANDS (%)	▼	-	(0.1%)	(0.0%)	(0.0%)
CADENT (%)	▼	-	(0.1%)	(0.0%)	(0.0%)

Collectable Revenue Trace: NTS Exit Capacity Updates

- Final NTS Exit Capacity unit rates have been updated for the Oct-17 gas year, and indicative positions out to 2020/21.
- The indicative price positions will be affected by the changes to their charging methodology currently under development (change expected to impact from Oct-19).
- We continue to work with NTS and the other GDNs to better understand the potential impact of the proposed changes, having clearly signposted our concerns in respect to domestic bills.

NTS EXIT CAPACITY RATE UPDATES		2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	-	1.1	(4.1)
LONDON (£M)	▼	-	0.8	(2.7)
NORTH WEST (£M)	▼	-	1.0	(3.3)
WEST MIDLANDS (£M)	▼	-	0.7	(2.3)
CADENT (£M)	▼	-	3.6	(12.4)
EAST OF ENGLAND (%)	▼	-	+0.2%	(0.6%)
LONDON (%)	▼	-	+0.2%	(0.6%)
NORTH WEST (%)	▼	-	+0.2%	(0.7%)
WEST MIDLANDS (%)	▼	-	+0.2%	(0.6%)
CADENT (%)	▼	-	+0.2%	(0.6%)

Collectable Revenue Trace: NIA Cost Forecast

- Final NIA costs for 2016/17 were £3.4m lower than previously forecast
- This is as a result of Ofgem disallowing £1.7m on the Bio-SNG project in March-17, coupled with the deferral of some other projects
- As the NIA mechanism affects allowed revenue in year, this creates an over recovery of revenue in 16/17 which will be repaid in 18/19

NIA COST FORECAST		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	-	(1.2)	(0.1)	-
LONDON (£M)	▼	-	(0.7)	(0.0)	-
NORTH WEST (£M)	▼	-	(0.8)	(0.0)	-
WEST MIDLANDS (£M)	▼	-	(0.6)	(0.0)	-
CADENT (£M)	▼	-	(3.2)	(0.2)	-
EAST OF ENGLAND (%)	▼	-	(0.2%)	(0.0%)	-
LONDON (%)	▼	-	(0.1%)	(0.0%)	-
NORTH WEST (%)	▼	-	(0.2%)	(0.0%)	-
WEST MIDLANDS (%)	▼	-	(0.2%)	(0.0%)	-
CADENT (%)	▼	-	(0.2%)	(0.0%)	-

Risks and Uncertainties

- The anticipated revenue impact of pension deficit funding has been held as previously reported, pending clarification of whether Ofgem intend to amend the licence in respect of NTS pass through allowances. We would expect this position to fully crystallise through the 2017 annual iteration process.

Forecasting into RIIO GD-2

- Any forecasts are provided on a best endeavours basis and cannot be viewed as any kind of recommendation or proposal for GD-2
- Approach for Base Revenue is to adjust the 2020/21 RIIO GD-1 final proposals for items we might be able to reasonably predict at this stage.

2009/10 PRICES	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE	496.2	347.2	360.6	270.0	1,474.0
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(1.0)	17.6	11.0	6.9	34.5
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(5.5)	(2.8)	(2.2)	(0.3)	(10.9)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(2.9)	(1.6)	(1.9)	(1.7)	(8.2)
TAX AT 17%	(5.7)	(4.3)	(4.3)	(3.5)	(17.7)
COST OF DEBT AT 1.2%	(25.8)	(20.7)	(19.6)	(15.0)	(81.1)
2020/21 ADJUSTED BASE REVENUE	455.1	335.3	343.5	256.4	1,390.2
NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE	716.7	501.5	520.8	390.0	2,128.9
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(1.5)	25.4	15.9	10.0	49.8
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	(0.2)	(0.1)	(0.2)	(0.1)	(0.6)
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(8.0)	(4.1)	(3.2)	(0.4)	(15.7)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(4.2)	(2.3)	(2.8)	(2.5)	(11.8)
TAX AT 17%	(8.2)	(6.1)	(6.2)	(5.1)	(25.6)
COST OF DEBT AT 1.2%	(37.3)	(30.0)	(28.3)	(21.6)	(117.1)
2020/21 ADJUSTED BASE REVENUE	657.3	484.2	496.1	370.3	2,007.8

Forecasting into RIIO GD-2

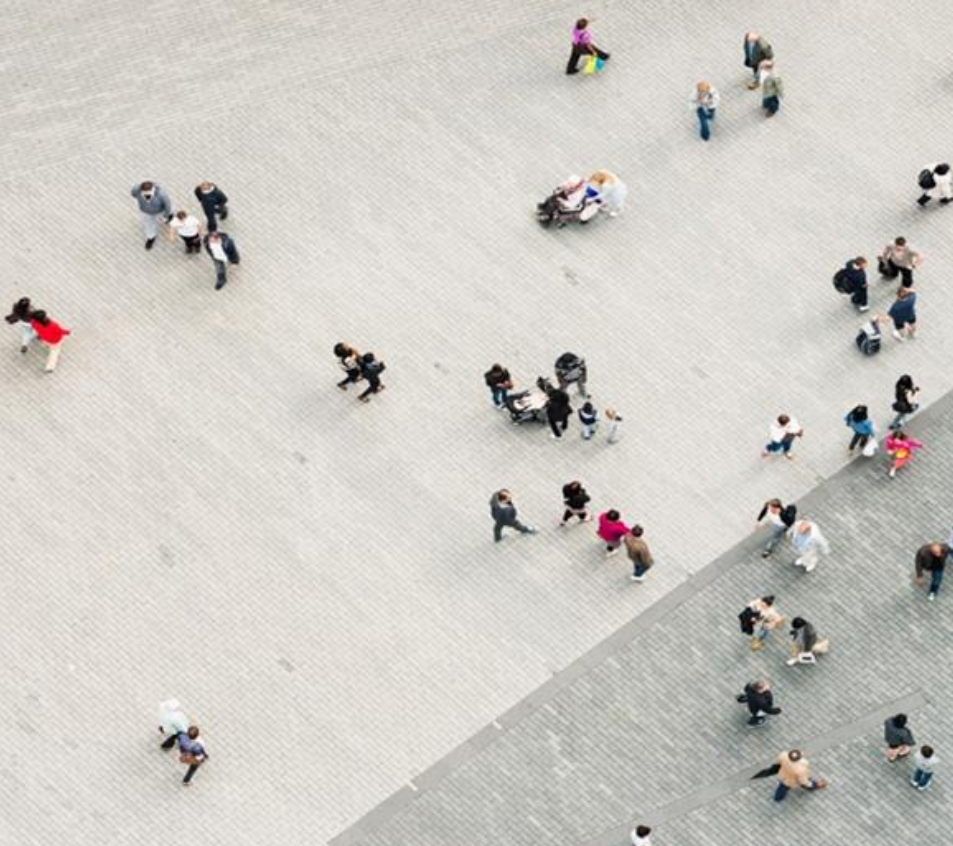
- The remaining elements of Allowed Revenue reflect our expectation of the 2 year lagged impact of cost and incentive performance flowing in from 2019/20 as a continuation of the current regime
- The exception to this is NIA which has been assumed to continue as per RIIO GD-1, our forecast reflecting spend up to the 0.7% base revenue cap

NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 ADJUSTED BASE REVENUE	657.3	484.2	496.1	370.3	2,007.8
PASS THROUGH	3.3	29.9	20.3	13.1	66.5
EXIT CAPACITY (INCENTIVE)	7.7	3.7	4.3	2.0	17.7
EXIT CAPACITY (COST PASS THROUGH)	(6.5)	(2.9)	(1.5)	0.8	(10.1)
SHRINKAGE INCENTIVE	0.8	0.4	0.4	0.4	2.0
SHRINKAGE COST PASS THROUGH	(4.5)	(2.5)	(3.0)	(2.7)	(12.7)
BROAD MEASURE OF CUSTOMER SATISFACTION	5.2	3.7	3.8	2.8	15.5
ENVIRONMENTAL EMISSIONS INCENTIVE	4.4	2.4	2.5	2.4	11.7
DISCRETIONARY REWARD SCHEME	-	-	-	-	-
NETWORK INNOVATION ALLOWANCE	4.1	3.1	3.1	2.3	12.6
UNDER / OVER COLLECTION B/F	-	-	-	-	-
2021/22 MAXIMUM ALLOWED REVENUE	671.8	522.1	525.9	391.3	2,111.1

Early view of Load Factor Impact on Prices

- Draft 2017 Load Factors provided by Xoserve in June 2017
- Impact to closing 2016 AQ review shown below
- Indicates lower Load Factor related volatility than observed in recent years
- This purely attempts to illustrate potential impact to 2018/19 prices arising from the Load Factor change based on the draft information provided, and does not take account movement in underlying AQs at this stage, or movements in SOQ in Daily Metered supply points
- Note that following implementation of Project Nexus, this should have no impact to 2017/18 revenue collection, as the effect of implementation is deferred to 1st April 2018

NETWORK	NDM SOQ (2016 LOAD FACTORS)	NDM SOQ (2017 DRAFT LOAD FACTORS)	CHANGE IN SOQ (%)	AGGREGATE PRICE IMPACT (%)
EE	619,480,298	621,885,662	0.4%	-0.4%
LO	399,594,136	400,097,717	0.1%	-0.1%
NW	399,671,987	400,241,737	0.1%	-0.1%
WM	320,068,478	319,660,045	-0.1%	0.1%
CADENT	1,738,814,899	1,741,885,160	0.2%	-0.2%



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