

June 2017 MOD 186

Accompanying Narrative



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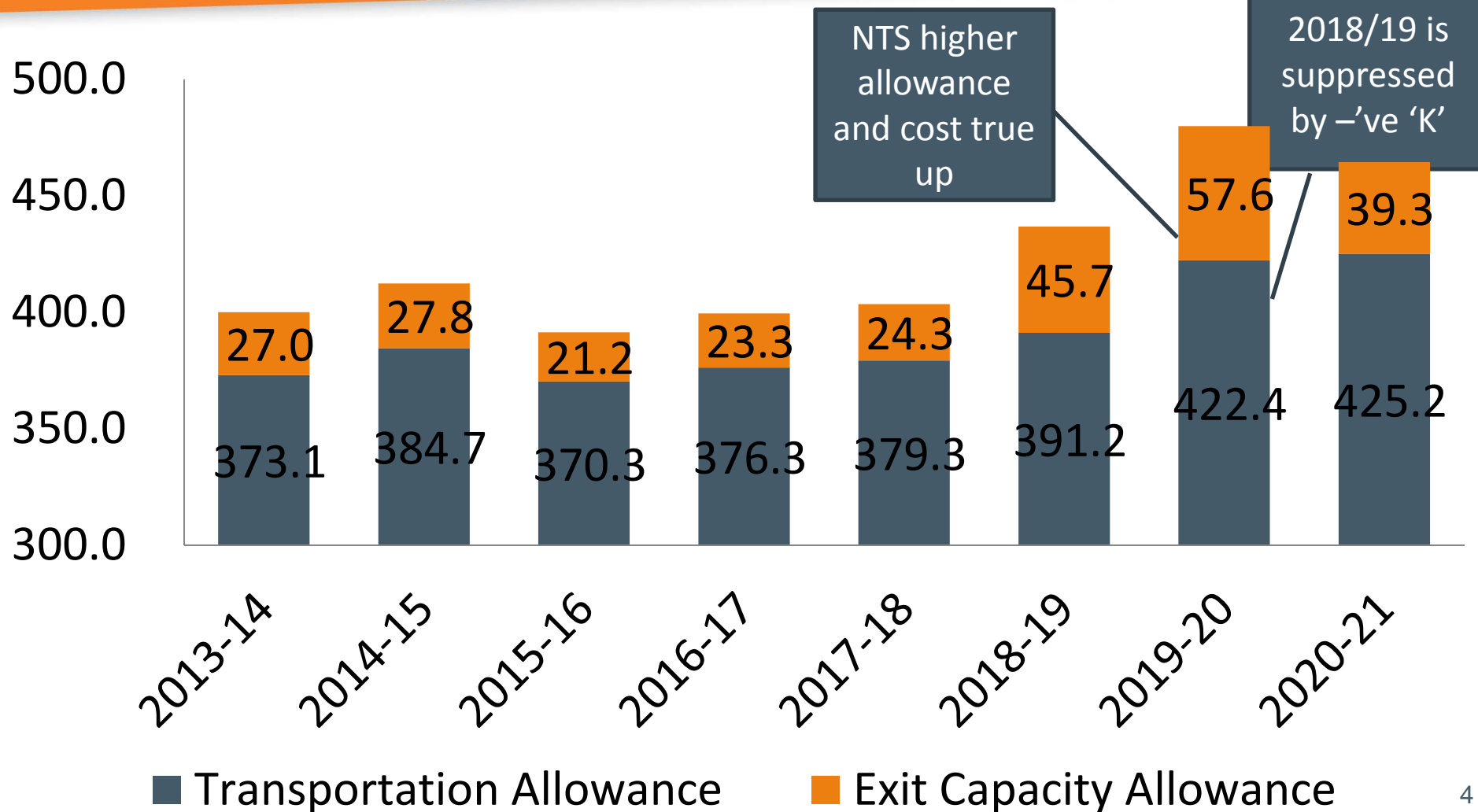


# Movement Since March 2017

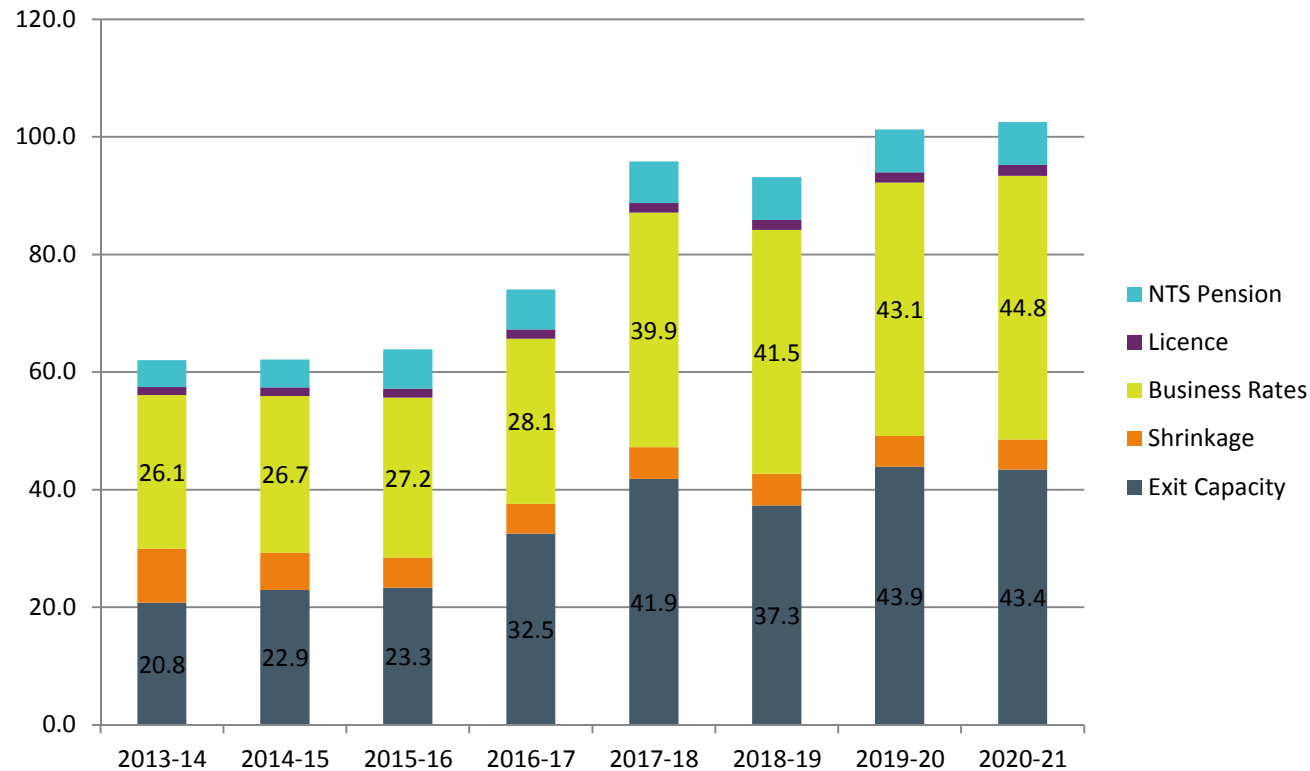
|  |   | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|---|---------|---------|---------|---------|---------|
| Reported at the last DCMF                    |   | 403.5   | 425.0   | 459.0   | 453.8   |         |
| Inflation*                                   | ↓ | -       | 1.7     | 1.7     | 0.8     |         |
| PCFM forecast                                | ↓ |         | 10.3    | 19.0    | 13.7    |         |
| Gas Price change (impacts shrinkage True up) | ↑ | -       | -0.1    | -0.8    | -0.3    |         |
| NTS Exit Price Changes                       | ↓ | -       | -       | 1.1     | -3.6    |         |
| Reported in the latest MOD186                | ↓ | 403.5   | 436.9   | 479.9   | 464.5   |         |
| Net Movement                                 | ↓ |         | 11.9    | 21.0    | 10.7    |         |

\* The General Election resulted in the quarterly Treasury Forecast not being published in May in line with its normal time table. Therefore these forecasts reflect the update made in February, updated for the known inflation from March published by the ONS.

## Split of Max Allowed Revenue (MAR) – GD1



# Non controllable costs



By 2020/21 Non controllable costs are forecast to be £102.5. As a comparison the directly controllable costs for WWU are c£210m therefore non controllable costs now represent almost half the value of controllable spend.

# Exit Capacity Forecast

- Volumes
  - High degree of certainty given booking are made in advance
- Price
  - 2019 onwards remains speculative based on the NTS EU Tariff Code review
  - National Grid NTS have now raised their 'Super Mod' to amend their pricing model to become EU compliant.

## Forecast Unit Rates

|     | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|-----|---------|---------|---------|---------|
| SW1 | 0.0119  | 0.0206  | 0.0268  | 0.0201  |
| SW2 | 0.0177  | 0.0324  | 0.0397  | 0.0303  |
| SW3 | 0.0256  | 0.0481  | 0.0570  | 0.0441  |
| WA1 | 0.0172  | 0.0314  | 0.0389  | 0.0297  |
| WA2 | 0.0068  | 0.0105  | 0.0155  | 0.0112  |

## Year on Year price change %

|     | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|-----|---------|---------|---------|---------|
| SW1 | 31%     | 73%     | 30%     | -25%    |
| SW2 | 4%      | 83%     | 23%     | -24%    |
| SW3 | -9%     | 88%     | 19%     | -23%    |
| WA1 | -32%    | 83%     | 24%     | -24%    |
| WA2 | 152%    | 54%     | 48%     | -28%    |

# Key risks and uncertainties

| What                                      | Why   | How Much  |
|---|---|---|
| Enhanced Physical Site Security Re-opener | 2018 is the next opportunity to submit costs for Ofgem. WWU intends to submit what it deems efficiently incurred cost | We estimate the efficiently incurred cost at c£18m, of which c£10m would impact 2019/20. Following RRP in July 2017 we will seek to include this in the MOD186 forecast |
| Smart Metering                            | A reopener for smart metering exists  | The number of smart meter installs within WWU remains relatively low therefore forecasts are not considered robust enough at present                                    |
| Exit Capacity post 2019/20                | EU tariff code may materially change the costs being incurred vs allowance  | The opportunity to align cost with allowance is limited based on the current UNC requirements on NTS however a material step change may require reconsideration of this |

## 2021/22 – First time of forecasting for MOD186

*As noted by Ofgem in their MOD186 decision “it is extremely difficult for GDNs to predict their allowed revenue beyond the end of the price control, at least until Ofgem publishes a set of proposals for the new price control period, which typically does not happen until the final year of the previous control. The GDNs do not know exactly how Ofgem will assess the costs needed to run their networks efficiently, nor what incentive mechanisms they will be subject to. Even where they can expect adjustments for events occurring during the existing price control period (for changes in defined benefit pension scheme contributions, for example, or a clawback of any excess interest tax shield) they may not know the exact basis of the calculation or the period over which it is spread.”*

Further

*“The GDNs’ concerns about the potential for such information to be misleading is noted, and the Authority considers that the assumptions need to be carefully considered and clearly stated so that shippers understand the basis of these forecasts.”*

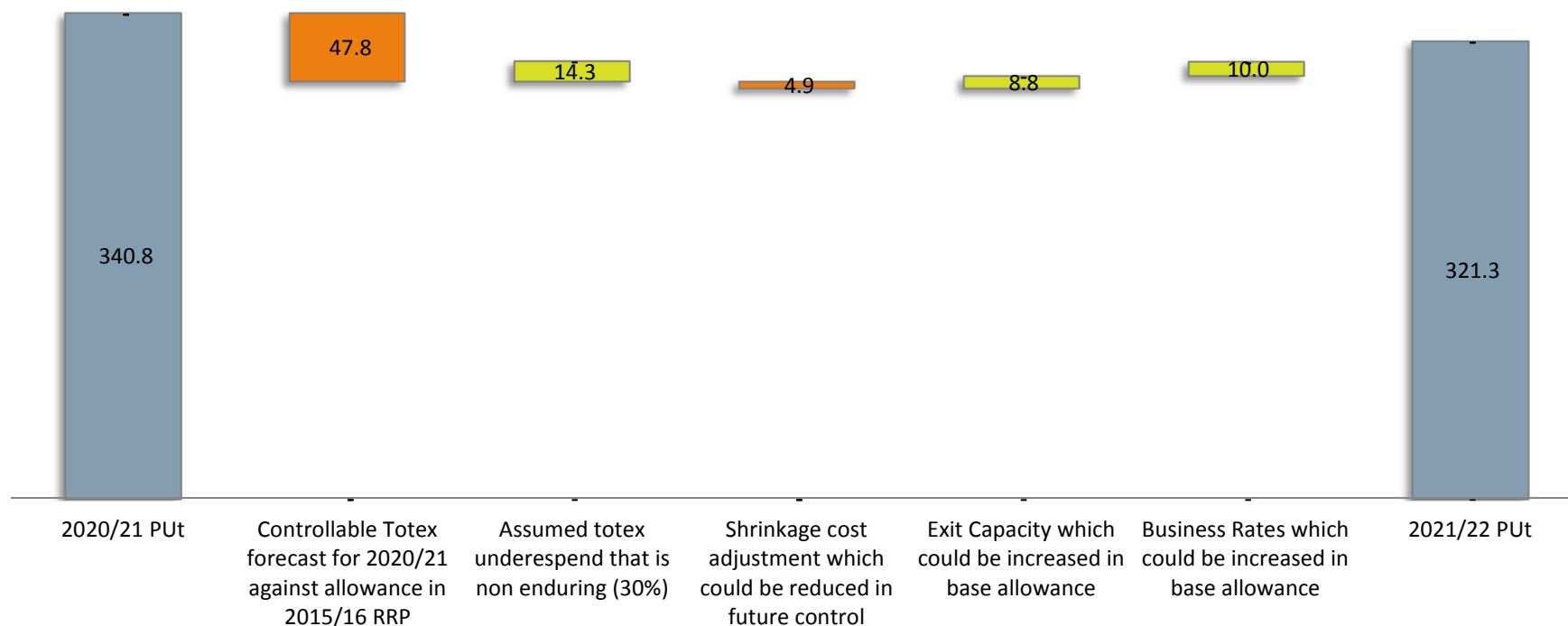
To that end therefore the forecasts provided for 2021/22 are accompanied by a set of assumptions which may be materially different from those which are finally settled upon.



## 2021/22 – Simplified Assumptions used

| Assumption        |  |
|-------------------|--|
| Base Revenue      | See next slide   |
| Inflation index   | RPI  |
| Incentives        | 2021/22 includes the forecast of the T+2 from GD1 2019/20.<br>No new incentives are accounted for in GD2 payable in year   |
| Cost Pass through | 2021/22 includes the forecast of the T+2 from GD1 2019/20.<br>No other pass through items for 2021/22 are considered to impact Year 1 GD2 as they would be forecast to follow a similar T+2 path |
| Cost of debt      | No variance from GD1 FPs   |
| WACC              | No variance from GD1 FPs   |
| NIA               | Continues in its current form  |
| Everything else   | Continues in line with GD1 FPs   |

## 2021/22 – Simplified forecasting (PUt)



DISCLAIMER – this provides a simplified view with basic assumptions and reliance therefore limited. PUt will be known following agreement of efficient cost to deliver the outcomes as set out in the Final Proposals for GD2 which as yet remain undefined.

## 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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