

# National Grid Gas Distribution MOD0186 Report (Dec-16)





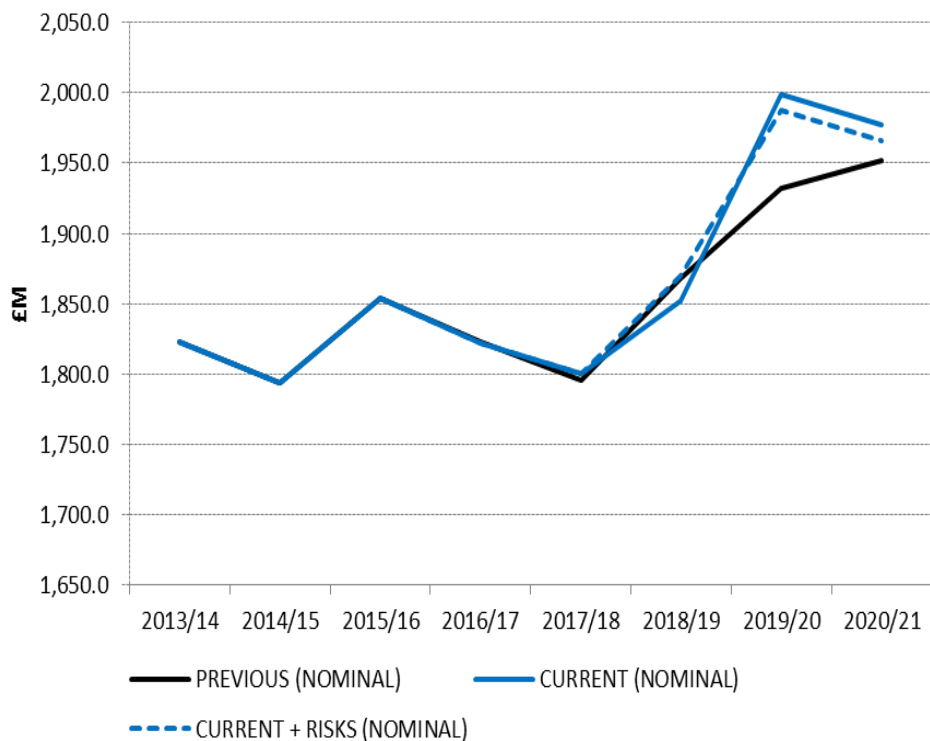
# Headline movements in Collectable Revenue

- Headline change is the inclusion of the Business Rates increases from 1<sup>st</sup> April 2017. With 2 year lagging, this will increase allowed revenues by £50m in 2019/20 and 2020/21
- We are also noting inflation forecast increases via HM Treasury impacting 2017/18 onwards
- The Rates and Inflation related increases are partly offset by reductions to cost of debt, and inclusion of FGO allowance reductions into the forecast (previously shown as a risk item)
- We expect that our Uncertain Measure submission to Ofgem for Smart Metering will now be in Autumn 2017, deferring the revenue impact by one year
- We are anticipating changes in respect of Pension Deficit liabilities resulting from separation of the Distribution business from NGG Plc. These are shown as a risk item in the December 2016 report

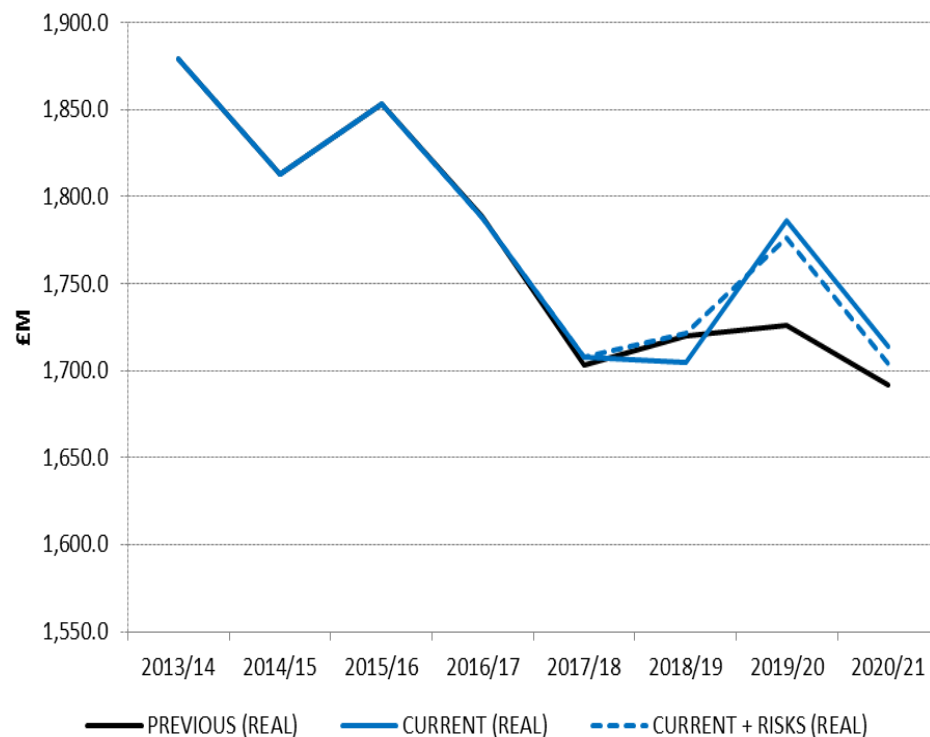


# NGGD Level Collectable Revenue Movement

### Movement in Collectable Revenue (Nominal)



### Movement in Collectable Revenue (Real)





# NGGD Level Collectable Revenue Trace

COLLECTABLE REVENUE TRACE		NATIONAL GRID GAS DISTRIBUTION							
		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	1,823.0	1,795.5	1,868.3	1,932.3	1,952.2
INFLATION	▲	-	-	-	-	13.9	14.3	6.9	6.9
COST OF DEBT	▼	-	-	-	-	(3.2)	(6.2)	(11.7)	(15.3)
FGO ALLOWANCE REDUCTION	▼	-	-	-	-	(5.6)	(10.4)	(13.0)	(15.0)
SMART METERING REPROFILE	▲	-	-	-	-	-	(10.8)	31.8	(8.8)
TAX (SPEND PROFILE & 2020/21 RATE TO 17%)	▲	-	-	-	-	0.2	(0.3)	0.4	1.6
OTHER PCFM	▼	-	-	-	-	0.1	(2.4)	(2.1)	(1.7)
BUSINESS RATES	▲	-	-	-	-	-	-	54.1	55.7
GAS PRICE REFERENCE COST	▲	-	-	-	-	-	1.5	0.9	0.8
SHRINKAGE & LEAKAGE VOLUMES	▼	-	-	-	-	-	(2.4)	(1.6)	1.5
OVER / UNDER RECOVERY	▲	-	-	-	(0.8)	(0.9)	0.8	1.0	-
OTHER CHANGES	▼	-	-	-	-	(0.1)	(0.3)	(0.1)	(0.7)
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,822.2	1,799.9	1,852.2	1,998.9	1,977.3
% MOVEMENT		-	-	-	(0.0%)	+0.2%	(0.9%)	+3.4%	+1.3%



## 2017/18 Transportation Charge Update

- Crystallisation of RPIF per HMT adding +0.8% to the positions signposted in the October indicatives
- Slightly softened by lowed cost of debt finalised via the AIP, and also by in year revenue collection
- Not anticipating any further material change ahead of final charge setting, although will update for very latest demand and collected revenue information

NETWORK	EE	LO	NW	WM	NGGD
<b>AGGREGATE PRICE CHANGE PER OCT-16 INDICATIVES</b>	<b>+1.7%</b>	<b>(5.3%)</b>	<b>(7.7%)</b>	<b>(0.2%)</b>	<b>(2.7%)</b>
CRYSTALLIZATION OF RPIF PER NOV-16 HMT UPDATE	+0.8%	+0.8%	+0.8%	+0.8%	+0.8%
2017/18 COST OF DEBT AGREED AT 2.22%	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)
MOVEMENT IN 2016/17 REVENUE RECOVERY	(0.1%)	(0.1%)	(0.1%)	(0.0%)	(0.1%)
<b>UPDATED AGGREGATE PRICE CHANGE</b>	<b>+2.2%</b>	<b>(4.7%)</b>	<b>(7.1%)</b>	<b>+0.5%</b>	<b>(2.1%)</b>



# Collectable revenue trace: Inflation

INFLATION		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	4.7	4.9	2.2	2.3
LONDON (£M)	▲	3.3	3.4	1.7	1.7
NORTH WEST (£M)	▲	3.4	3.4	1.7	1.7
WEST MIDLANDS (£M)	▲	2.5	2.6	1.3	1.3
NGGD (£M)	▲	13.9	14.3	6.9	6.9
EAST OF ENGLAND (%)	▲	+0.8%	+0.8%	+0.3%	+0.3%
LONDON (%)	▲	+0.8%	+0.8%	+0.4%	+0.4%
NORTH WEST (%)	▲	+0.8%	+0.8%	+0.4%	+0.4%
WEST MIDLANDS (%)	▲	+0.8%	+0.8%	+0.4%	+0.4%
NGGD (%)	▲	+0.8%	+0.8%	+0.3%	+0.3%

- NB figures are variance to previous forecast
- Reflects actual RPI positions to Oct 2016, and HM Treasury 'Forecasts for the UK Economy' report published November 2016
- Marked change in 2017 view from HMT

HMT Inflation Forecasts	2016	2017	2018	2019	2020
Aug-16	1.7%	2.8%	3.0%	3.1%	3.3%
Nov-16	1.8%	3.5%	3.1%	3.0%	3.1%
Change	+0.1%	+0.7%	+0.1%	(0.1%)	(0.2%)

Financial Year Inflation Forecast	2016/17	2017/18	2018/19	2019/20	2020/21
Sep-16	1.8%	2.8%	3.0%	3.2%	3.2%
Dec-16	1.9%	3.4%	3.1%	3.0%	3.1%
Change	+0.1%	+0.6%	+0.0%	(0.1%)	(0.1%)



# Collectable revenue trace: PCFM

PCFM (£M NOMINAL)		2017/18	2018/19	2019/20	2020/21
LOAD RELATED CAPEX	▼	(0.1)	(0.1)	(0.1)	(0.1)
OTHER CAPEX	▼	(0.1)	(0.1)	(0.0)	(0.1)
CONTROLLABLE OPEX	▼	(0.0)	(0.0)	(0.0)	(0.0)
REPLACEMENT EXPENDITURE	▼	(1.6)	(2.5)	(2.2)	(1.8)
TOTEX INCENTIVE MECHANISM	▼	(1.7)	(2.7)	(2.4)	(2.1)
SMART METERING ROLL OUT	▲	-	(10.9)	32.0	(8.8)
FGO	▼	(5.6)	(10.5)	(13.1)	(15.1)
MAINS & SERVICES (REPEX T2)	▲	1.6	0.2	0.1	0.1
OTHER UNCERTAINTY	▲	0.2	0.1	0.1	0.2
UNCERTAINTY MECHANISMS	▼	(3.8)	(21.1)	19.1	(23.6)
COST OF DEBT	▼	(3.2)	(6.3)	(11.7)	(15.4)
TAX TRIGGER REFORECAST	▲	0.2	(0.3)	0.4	1.6
OTHER PCFM CHANGES	▲	0.0	0.1	0.1	0.1
<b>TOTAL PCFM UPDATE</b>	<b>▼</b>	<b>(8.6)</b>	<b>(30.2)</b>	<b>5.5</b>	<b>(39.4)</b>

- NB figures are variance to previous forecast
- Reflects latest totex forecast as submitted in RRP, although London includes a correction to the Repex element
- Re-profiled Smart UM given expectation of submission, and base on RRP cost forecast
- FGO now fully reflected in forecast (previously shown as sensitivity)
- 2017/18 cost of debt finalised and future forecast updated
- Included corporation tax rate reduction to 17% in 2020/21, although not yet legislated



# Collectable revenue trace: Rates

BUSINESS RATES		2017/18	2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	-	-	6.4	6.5
LONDON (£M)	▲	-	-	21.8	22.4
NORTH WEST (£M)	▲	-	-	16.0	16.6
WEST MIDLANDS (£M)	▲	-	-	9.9	10.2
NGGD (£M)	▲	-	-	54.1	55.7
EAST OF ENGLAND (%)	▲	-	-	+1.0%	+1.0%
LONDON (%)	▲	-	-	+4.8%	+4.9%
NORTH WEST (%)	▲	-	-	+3.4%	+3.5%
WEST MIDLANDS (%)	▲	-	-	+2.8%	+2.9%
NGGD (%)	▲	-	-	+2.7%	+2.8%

- NB figures are variance to previous forecast
- Lagged impact of rates increases from 2017/18 primarily driven by regulatory treatment of repex
- Risk previously raised as unquantified risk
- Outcome is middle territory against range of +12% to plus 50% previously posited
- Were hoping to have benefitted from transitional arrangements, but unexpected Government proposal is that these only apply where year on year rates increases exceed +45%





# Collectable revenue trace: Gas Price Reference Cost

GAS PRICE REFERENCE COST		2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▲	0.5	0.3	0.3
LONDON (£M)	▲	0.3	0.2	0.2
NORTH WEST (£M)	▲	0.4	0.2	0.2
WEST MIDLANDS (£M)	▲	0.3	0.2	0.2
<b>NGGD (£M)</b>	<b>▲</b>	<b>1.5</b>	<b>0.9</b>	<b>0.8</b>
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%	+0.1%	+0.1%
<b>NGGD (%)</b>	<b>▲</b>	<b>+0.1%</b>	<b>+0.0%</b>	<b>+0.0%</b>

- NB figures are variance to previous forecast
- Observing continued gradual rise in gas price forecasts each quarter

FORMULA YEAR	2016/17	2017/18	2018/19	2019/20	2020/21
CURRENT (£/GWH)	13,556	13,716	13,975	14,394	14,826
PREVIOUS (£/GWH)	12,614	13,119	13,416	13,819	14,233
CHANGE (£/GWH)	942	597	559	575	593
CHANGE (%)	7%	5%	4%	4%	4%



## Collectable revenue trace: Shrinkage & Leakage Volumes

SHRINKAGE & LEAKAGE VOLUMES		2018/19	2019/20	2020/21
EAST OF ENGLAND (£M)	▼	(0.7)	(0.3)	0.5
LONDON (£M)	▼	(0.5)	(0.4)	0.7
NORTH WEST (£M)	▼	(0.5)	(0.3)	0.4
WEST MIDLANDS (£M)	▼	(0.7)	(0.6)	0.0
NGGD (£M)	▼	(2.4)	(1.6)	1.5
EAST OF ENGLAND (%)	▼	(0.1%)	(0.0%)	+0.1%
LONDON (%)	▼	(0.1%)	(0.1%)	+0.1%
NORTH WEST (%)	▼	(0.1%)	(0.1%)	+0.1%
WEST MIDLANDS (%)	▼	(0.2%)	(0.2%)	+0.0%
NGGD (%)	▼	(0.1%)	(0.1%)	+0.1%

- NB figures are variance to previous forecast
- Reflects pressure on 2016/17 incentive forecasts arising from average system pressure increase
- We expect this to be recoverable over the remainder of GD-1, but need to drive this to earliest opportunity

Shrinkage	2016/17	2017/18	2018/19	2019/20	2020/21
Sep-16 (gWh)	1292.0	1257.0	1224.0	1191.0	1155.0
Nov-16 (gWh)	1312.8	1272.8	1220.0	1177.5	1136.7
% Change	+1.6%	+1.3%	(0.3%)	(1.1%)	(1.6%)

Leakage	2016/17	2017/18	2018/19	2019/20	2020/21
Sep-16 (gWh)	1211.0	1178.0	1143.0	1111.0	1077.0
Nov-16 (gWh)	1234.2	1195.1	1143.5	1101.6	1061.8
% Change	+1.9%	+1.5%	+0.0%	(0.8%)	(1.4%)



# Risks and Uncertainties

- No material changes to 2017/18 prices anticipated following December MOD0186 publication
- Treatment of pension deficits post separation of NGGDL from NGG Plc expected to have transient impact to allowed revenues
- Broadly speaking, expecting a movement between pass through funding (currently charged by NTS) and direct funding
- Summary cost and revenue impacts shown on the following slides



# Pension Deficits (Cost Movement)

PRE SEPARATION (£M)	2017/18	2018/19	2019/20	2020/21
DIRECT PENSION DEFICIT COSTS	12	12	12	12
ONE OFF ESPS ADJ	-	-	-	-
NTS PASS THROUGH	30	30	30	30
<b>TOTAL</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>

POST SEPARATION (£M)	2017/18	2018/19	2019/20	2020/21
DIRECT PENSION DEFICIT COSTS	33	33	33	33
ONE OFF ESPS ADJ	5	-	-	-
NTS PASS THROUGH	19	19	-	-
<b>TOTAL</b>	<b>57</b>	<b>52</b>	<b>33</b>	<b>33</b>

CHANGE (£M)	2017/18	2018/19	2019/20	2020/21
DIRECT PENSION DEFICIT COSTS	(21)	(21)	(21)	(21)
ONE OFF ESPS ADJ	(5)	-	-	-
NTS PASS THROUGH	11	11	30	30
<b>TOTAL</b>	<b>(15)</b>	<b>(10)</b>	<b>10</b>	<b>10</b>

- Numbers in 2016/17 prices
- Driven by sectionalisation of pension deficit liabilities as a consequence of NGGDL sale
- 3 moving parts:
  - Switch of cost between pass through and direct cost categories
  - One off adjustment to 2017/18 in respect of former ESPS members moving into the NGGDL scheme
  - Residual payments to NTS in respect of contributions made in TPCR-4, accelerated over 17/18 and 2018/19, with no further cost thereafter



# Pension Deficits (Revenue Impact)

REVENUE IMPACT (£M)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023 - 2027
ADJUSTMENT TO DIRECT ALLOWANCES	-	21	21	21	-	-	-
2017/18 TRUE UP	-	3	3	3	3	3	11
CHANGE IN NTS COST FORECAST	-	-	(14)	(14)	(38)	(39)	-
ADJUSTMENT TO PASS THROUGH ALLOWANCE	-	(6)	(21)	(21)	27	28	-
<b>TOTAL</b>	<b>-</b>	<b>17</b>	<b>(11)</b>	<b>(12)</b>	<b>(8)</b>	<b>(8)</b>	<b>11</b>
<b>% REVENUE IMPACT</b>	<b>-</b>	<b>+0.9%</b>	<b>(0.6%)</b>	<b>(0.6%)</b>	<b>(0.4%)</b>	<b>(0.4%)</b>	<b>+0.6%</b>

- **Illustrative impact relative to previous forecast**
- **Assumes direct allowances reset from 2018/19 through usual tri-annual process**
- **2017/18 direct true up is spread over the period to 2027 (this period may be longer) which softens the impact to allowed revenues**
- **Impact to direct allowances can be offset through adjustment to pass through allowances in order to hold customers whole at the earliest opportunity. Whilst this requires a licence change, Ofgem are aware of this aspect**