

DN Charging Methodology Forum

SGN December 2016 Mod 186 Summary

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Key Revenue Changes

RPIft	November 2016 Treasury update.
RBt	Reflects 2017/18 re-evaluated Business Rates impacting revenue 2019/20.
Kt	2016/17 Collected position updated to reflect October 2016 SOQ impact.
MODt	Lower cost of debt, tax, FGO Allowance, Totex and Tier 2a updates.
EXt	Southern reduction in costs and increase in performance due to reduced capacity bookings for October 2016 assumed no volume change going forward.
SHRAt	Higher Shrinkage cost forecast 2016/17 onwards.
SOQ	SOQ impact reflects a holding assumption 0% pending further review.

No change from 2017/18 Indicative charge levels

HM Treasury Medium Term RPI Forecast

Movement- August to November 2016

	2016 HM Treasury	2017 HM Treasury	2018 HM Treasury	2019 HM Treasury	2020 SGN	2021 SGN
August 2016	1.7%	2.8%	3.0%	3.1%	3.3%	3.0%
November 2016	1.8%	3.5%	3.1%	3.0%	3.1%	3.0%
Movement	0.1%	0.7%	0.1%	-0.1%	-0.2%	0.0%

	2016-17	2017-18	2018-19	2019-20	2020-21
Latest actual/projected -August 2016	2.0%	2.9%	3.0%	3.2%	3.2%
Latest actual/projected -November 2016	2.2%	3.4%	3.1%	3.0%	3.1%
Movement	0.3%	0.6%	0.1%	-0.1%	-0.2%

Scotland Key Revenue Movements-All Charges

Table 1 : Total Charge Elements (ECN + LDZ + Customer)		2016-17	2017-18	2018-19	2019-20	2020-21
2	Latest Actual/Projected RPI	0.3%	0.6%	0.1%	(0.1%)	(0.1%)
5	Price Control Financial Model Iteration Adjustment	-	(1.0)	(2.7)	(4.4)	(5.9)
6	RPI True Up	-	0.0	0.7	(0.0)	(0.0)
7	Forecast RPI Factor	0.000	0.010	0.011	0.009	0.008
	Base Revenue	-	1.2	(0.1)	(3.6)	(6.3)
8	Business Rate Adjustment	-	(0.0)	(0.1)	11.5	11.7
9	Licensee Fee Adjustment	-	0.0	(0.2)	(0.2)	(0.2)
10	NTS Pensions Deficit Adjustment	-	0.0	(0.0)	(0.1)	(0.1)
14	Exit Capacity Allowance Adjustment	-	0.0	(0.1)	(0.1)	(0.1)
16	Shrinkage Cost Adjustment	-	(0.0)	0.3	0.2	0.1
23	Correction Term revenue Adjustment (K added)	-	(0.0)	(6.5)	-	-
24	Maximum DN Allowed Revenue (including NTS Exit)	(0.0)	1.1	(6.7)	7.7	5.1
	Under/Over-Recovery Carried Forward	6.3	-	-	-	-
27	Arithmetical April Price Change Forecast All Charges	0.0%	0.5%	0.7%	-0.4%	-0.4%
TABLE 5 : SOQ Impact Assumption		2016-17	2017-18	2018-19	2019-20	2020-21
44	Annual SOQ Assumption	3.5%	1.0%	1.0%	1.0%	1.0%
Table 6 : Annual Iteration Process Adjustment (2009/10 prices)		2016-17	2017-18	2018-19	2019-20	2020-21
45	Cost of Debt Adjustment (drives changes to WACC)	0.00%	-0.05%	-0.19%	-0.34%	-0.48%
46	Cost of debt adjustment - £ effect on revenue - (9/10 prices)	-	0.5	(1.0)	(2.2)	(3.8)
47	Tax Trigger Event	-	(0.0)	0.0	(0.0)	(0.0)
57	Totex Incentive Mechanism (T2)	-	(1.0)	(0.7)	(0.8)	(0.6)
64	Agency Costs (FGO)	-	(0.6)	(1.1)	(1.4)	(1.6)
65	Mains & Services (Repex T2)	-	0.0	0.1	0.1	0.0
71	Total value included in Table 1 in this forecast	-	(1.0)	(2.7)	(4.4)	(5.9)

Southern Key Revenue Movements-All Charges

Row	Table 1 : Total Charge Elements (ECN + LDZ + Customer)		2016-17	2017-18	2018-19	2019-20	2020-21
2	Latest Actual/Projected RPI		0.3%	0.6%	0.1%	-0.1%	-0.1%
5	Price Control Financial Model Iteration Adjustment	MODt	-	(2.5)	(6.5)	(10.3)	(13.8)
6	RPI True Up	TRUt	-	-	1.6	-	-
7	Forecast RPI Factor	RPIFt	-	0.010	0.011	0.009	0.008
	Base Revenue	BRT	-	2.5	(0.1)	(8.4)	(14.9)
8	Business Rate Adjustment	RBt	-	-	(0.0)	19.4	19.7
10	NTS Pensions Deficit Adjustment	PDt	-	0.0	(0.0)	(0.2)	(0.2)
13	Exit Capacity Incentive Adjustment	EIt	-	0.0	4.5	5.0	5.2
14	Exit Capacity Allowance Adjustment		-	0.0	(3.5)	(6.6)	(6.5)
16	Shrinkage Cost Adjustment	SHRAt	-	(0.1)	0.7	0.6	0.4
17	Shrinkage Incentive Adjustment	SHRRt	-	-	0.1	0.1	0.0
22	Network Innovation Allowance Revenue Adjustment	NIAt	-	0.0	(0.0)	(0.0)	(0.1)
23	Correction Term revenue Adjustment (K added)	-Kt	-	0.0	(3.9)	-	-
24	Maximum DN Allowed Revenue (including NTS Exit)	ARt	0.0	2.4	(2.3)	9.9	3.6
26	Under/Over-Recovery Carried Forward	Rt - ARt	3.7	-	-	-	-
27	Arithmetical April Price Change Forecast All Charges		0.0%	-0.6%	-1.2%	1.1%	-1.3%
	TABLE 5 : SOQ Impact Assumption						
44	Annual SOQ Assumption		1.6%	0.5%	0.5%	0.5%	0.5%
	Table 6 : Annual Iteration Process Adjustment (2009/10 prices)						
45	Cost of Debt Adjustment (drives changes to WACC)	CDE %	0.00%	-0.05%	-0.19%	-0.34%	-0.48%
46	Cost of debt adjustment - £ effect on revenue	CDE £ impact	-	(0.7)	(3.8)	(6.7)	(9.9)
48	Tax Liability - gearing/interest costs	TGIE	-	(0.2)	(0.1)	(0.3)	(0.5)
57	Totex Incentive Mechanism (2 year lag)		-	(0.2)	(0.0)	0.2	0.3
64	Agency Costs (FGO Allowances)	IAECA	-	(1.3)	(2.5)	(3.3)	(3.7)
65	Mains & Services -Repex T2a (2 year lag)	RE	-	0.0	(0.1)	(0.1)	(0.0)
70	Total value included in Table 1 in this forecast		-	(2.5)	(6.5)	(10.2)	(13.8)