



MOD0186 Report Sep-17

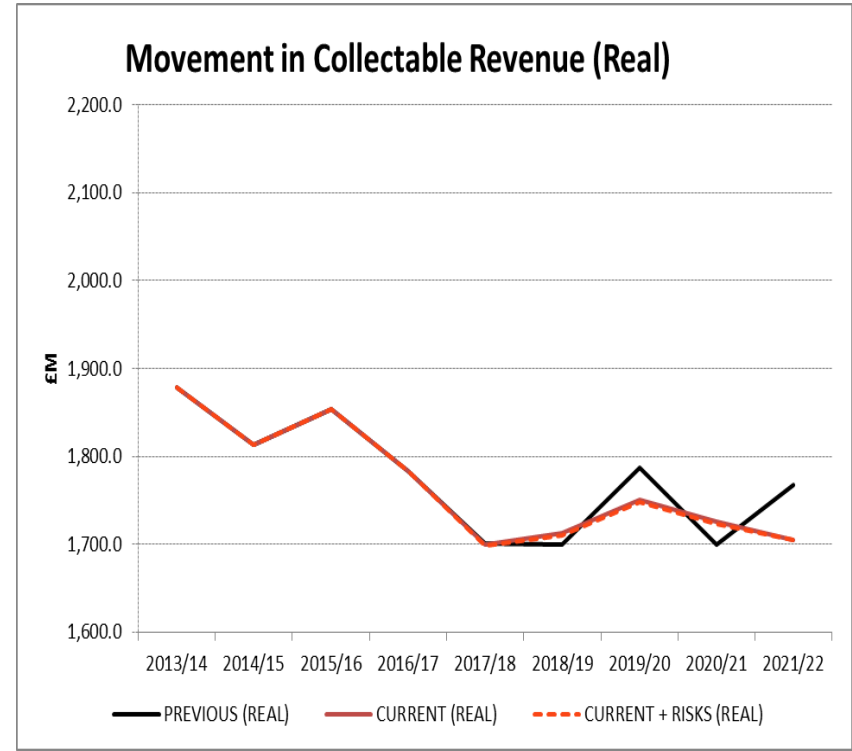
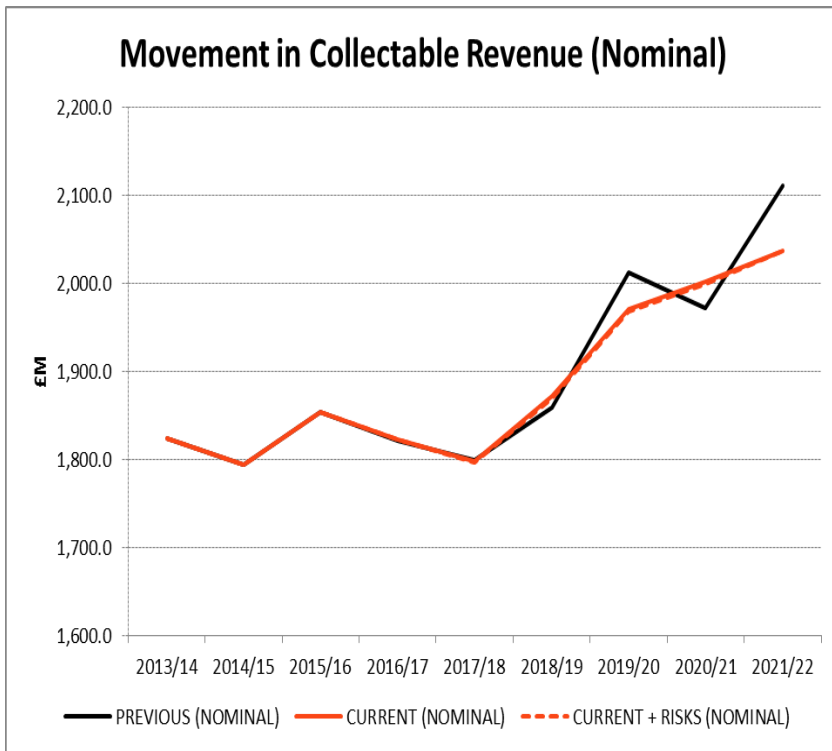
Shazia Akhtar & Craig Neilson
September 2017

Cadent
Your Gas Network

Headline Movements In Collectable Revenue

- The September forecast is fully aligned to the 16/17 RRP submissions in respect of 2016/17 final performance and forecasts for the remainder of RIIO GD1
- The biggest movement relates to reducing Cost Of Debt index, which results in a £30.1m reduction in allowed revenue based on our latest forecasts
- Inflation is also tracking down slightly in the medium term and is driving a further £19m reduction in allowed revenue
- Ofgem has agreed the approach to adjust our London Medium Pressure allowance and the expected impact of this has been included within the overall Totex Update. We envisage this will give rise to a £18m reduction in revenue in GD-1
- Deferral of the Smart Metering uncertainty mechanism from 2019/20 to 2020/21 was signposted as a risk item previously and has now been embedded within the forecast, in addition to expected cost forecast reductions, which drive a £10.4m reduction in allowed revenue
- Changes to pension funding post sale have been highlighted as risk item previously. Given that Indicative charges are due by the end of October, and this will impact 2018/19 revenue, we have now reflected a robust scenario into the September forecast
- We have maintained our approach for forecasting into the first year of RIIO GD-2

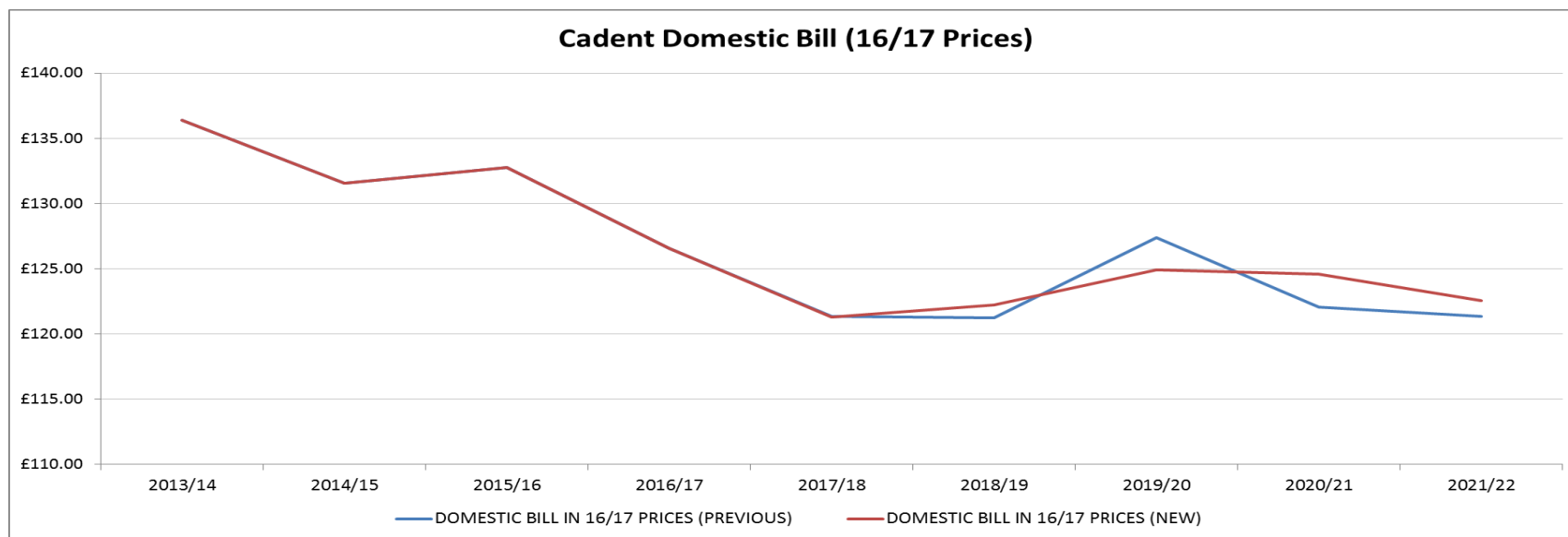
Cadent Collectable Revenue Movement



- Reduction in collectable revenue from previous forecast is mainly driven by lower Cost of Debt, reduced Inflation, adjustments to London Medium Pressure Allowance and deferral of the Smart Metering uncertainty mechanism

Headline movements since last report

HEADLINE MOVEMENT SINCE LAST REPORT	CADENT GAS LTD									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.7	1,799.1	1,858.5	2,012.7	1,971.8	2,111.1	
MOVEMENT ▼	-	-	-	0.1	(1.9)	13.5	(41.5)	30.0	(74.5)	
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,797.1	1,872.1	1,971.2	2,001.8	2,036.6	
% MOVEMENT	-	-	-	+0.0%	(0.1%)	+0.7%	(2.1%)	+1.5%	(3.5%)	
DOMESTIC BILL IN 16/17 PRICES (PREVIOUS)	£136.40	£131.54	£132.79	£126.55	£121.37	£121.22	£127.40	£122.04	£121.36	
MOVEMENT ▲	-	-	-	-	(£0.05)	+£0.99	(£2.49)	+£2.56	+£1.19	
DOMESTIC BILL IN 16/17 PRICES (NEW)	£136.40	£131.54	£132.79	£126.55	£121.32	£122.21	£124.91	£124.60	£122.55	



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	2021/22
COLLECTABLE REVENUE (PREVIOUS)		1,823.3	1,793.5	1,853.6	1,821.7	1,799.1	1,858.5	2,012.7	1,971.8	2,111.1
INFLATION	▼	-	-	-	-	-	0.9	(2.0)	(6.7)	(11.2)
COST OF DEBT % REFORECAST	▼	-	-	-	-	-	0.6	(4.0)	(10.0)	(16.8)
TOTEX UPDATE (INC TIER 2 REPEX)	▼	-	-	-	-	-	(13.6)	(3.2)	(1.6)	(0.0)
SMART METERING DEFERRAL	▼	-	-	-	-	-	-	(47.8)	37.4	-
PCFM TAX IMPACT	▼	-	-	-	-	-	(0.4)	(0.3)	(1.1)	-
DIRECT PENSION DEFICIT (PCFM)	▲	-	-	-	-	-	24.7	27.2	26.1	(2.1)
NTS PENSION DEFICIT	▼	-	-	-	-	-	-	(13.6)	(14.7)	(37.9)
LICENCE FEE FORECAST CORRECTION	▲	-	-	-	-	-	-	-	-	(3.2)
GAS PRICE REFERENCE COST	▲	-	-	-	-	-	-	0.0	0.4	(1.1)
SHRINKAGE & LEAKAGE VOLUMES	▼	-	-	-	-	-	0.9	0.2	(1.1)	(0.4)
EXIT CAPACITY VOLUMES	▲	-	-	-	-	-	-	0.8	0.1	(1.8)
2016/17 STAKEHOLDER ENGAGEMENT	▲	-	-	-	-	-	1.7	-	-	-
NIA COST FORECAST REDUCTION	▼	-	-	-	-	-	-	(1.1)	-	-
IN YEAR REVENUE COLLECTION	▲	-	-	-	-	(1.9)	(0.9)	2.0	1.0	-
OTHER MINOR UPDATES	▲	-	-	-	0.1	-	(0.3)	0.2	0.2	0.1
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,821.8	1,797.1	1,872.1	1,971.2	2,001.8	2,036.6
% MOVEMENT		-	-	-	+0.0%	(0.1%)	+0.7%	(2.1%)	+1.5%	(3.5%)

Collectable revenue trace: Inflation

INFLATION		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	0.3	(0.6)	(2.2)	(3.6)
LONDON (£M)	▼	0.2	(0.5)	(1.6)	(2.8)
NORTH WEST (£M)	▼	0.2	(0.5)	(1.7)	(2.7)
WEST MIDLANDS (£M)	▼	0.2	(0.4)	(1.2)	(2.1)
CADENT (£M)	▼	0.9	(2.0)	(6.7)	(11.2)
EAST OF ENGLAND (%)	▼	+0.0%	(0.1%)	(0.3%)	(0.5%)
LONDON (%)	▼	+0.0%	(0.1%)	(0.3%)	(0.5%)
NORTH WEST (%)	▼	+0.0%	(0.1%)	(0.3%)	(0.5%)
WEST MIDLANDS (%)	▼	+0.0%	(0.1%)	(0.3%)	(0.5%)
CADENT (%)	▼	+0.0%	(0.1%)	(0.3%)	(0.5%)

- Positions shown are relative to previous forecast
- HM Treasury forecasts show RPI flattening back down to long term average of 3.0%

HMT INFLATION FORECASTS	2017	2018	2019	2020	2021
LATEST FORECAST (AUG-17)	3.5%	3.5%	3.0%	3.0%	3.0%
PREVIOUS (FEB-17)	3.5%	3.4%	3.2%	3.2%	3.3%
CHANGE	-	+0.1%	(0.2%)	(0.2%)	(0.3%)

Collectable revenue trace: Cost of Debt

COST OF DEBT % REFORECAST		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	0.2	(1.4)	(5.0)	(7.4)
LONDON (£M)	▼	0.2	(1.0)	(1.9)	(3.5)
NORTH WEST (£M)	▼	0.2	(0.9)	(1.8)	(3.3)
WEST MIDLANDS (£M)	▼	0.1	(0.7)	(1.4)	(2.5)
CADENT (£M)	▼	0.6	(4.0)	(10.0)	(16.8)
EAST OF ENGLAND (%)	▼	+0.0%	(0.2%)	(0.8%)	(1.1%)
LONDON (%)	▼	+0.0%	(0.2%)	(0.4%)	(0.7%)
NORTH WEST (%)	▼	+0.0%	(0.2%)	(0.4%)	(0.6%)
WEST MIDLANDS (%)	▼	+0.0%	(0.2%)	(0.4%)	(0.6%)
CADENT (%)	▼	+0.0%	(0.2%)	(0.5%)	(0.8%)

COST OF DEBT FORECAST		2018/19	2019/20	2020/21	2021/22
Sep-17		1.99%	1.64%	1.20%	0.99%
Jun-17		1.98%	1.70%	1.31%	1.20%
DIFFERENCE		+0.01%	(0.06%)	(0.11%)	(0.21%)

- Positions shown are relative to previous forecast
- Our latest forecast shows continued reduction to 10 year trailing average forecast
- 2018/19 will continue to develop throughout the AIP process, however Ofgem have flagged in issue with the provision of Bank of England data that supports the indexation calculation
- It is hoped that this will resolve in time for the final AIP run in November, but have recommended to Ofgem that in a worst case scenario, some element of forecast is adopted, and not to hold to prior year
- We have highlighted the interaction with the price setting process, and the important of maintaining stable price signals from this point forwards

Collectable revenue trace: Totex

TOTEX UPDATE (INC TIER 2 REPEX)		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	(2.2)	(1.7)	1.0	-
LONDON (£M)	▼	(9.6)	(2.3)	(2.4)	(0.0)
NORTH WEST (£M)	▼	(1.8)	0.2	0.0	-
WEST MIDLANDS (£M)	▲	0.0	0.7	(0.2)	-
CADENT (£M)	▼	(13.6)	(3.2)	(1.6)	(0.0)
EAST OF ENGLAND (%)	▼	(0.3%)	(0.3%)	+0.2%	-
LONDON (%)	▼	(2.2%)	(0.5%)	(0.5%)	(0.0%)
NORTH WEST (%)	▼	(0.4%)	+0.0%	+0.0%	-
WEST MIDLANDS (%)	▲	+0.0%	+0.2%	(0.1%)	-
CADENT (%)	▼	(0.7%)	(0.2%)	(0.1%)	(0.0%)

TOTEX IMPACT (INC TIER 2 REPEX)		2018/19	2019/20	2020/21	2021/22
OPEX	▼	0.5	0.4	(1.2)	-
CAPEX	▼	(0.7)	(0.9)	1.3	-
REPEX	▼	(13.3)	(2.7)	(1.7)	-
CADENT (£M)	▼	(13.6)	(3.2)	(1.6)	-

- Positions shown are relative to previous forecast
- Totex forecast is aligned to 2016/17 RRP submission, and will be held at this level until the next round of reporting
- Includes expected impact of London Medium pressure allowance adjustment agreed by Ofgem, this gives rise to around £18m reduction in revenue in GD-1 in nominal terms

Collectable revenue trace: Smart Metering

SMART METERING DEFERRAL		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	-	(16.7)	13.0	-
LONDON (£M)	▼	-	(11.3)	8.8	-
NORTH WEST (£M)	▼	-	(11.9)	9.2	-
WEST MIDLANDS (£M)	▼	-	(8.0)	6.3	-
CADENT (£M)	▼	-	(47.8)	37.4	-
EAST OF ENGLAND (%)	▼	-	(2.5%)	+2.0%	-
LONDON (%)	▼	-	(2.3%)	+1.9%	-
NORTH WEST (%)	▼	-	(2.4%)	+1.9%	-
WEST MIDLANDS (%)	▼	-	(2.2%)	+1.7%	-
CADENT (%)	▼	-	(2.4%)	+1.9%	-

- Positions shown are relative to previous forecast
- Reflects deferral of Smart UM submission by another year...this has been sign posted to Shippers as a risk previously
- Also reflects the £22m reduction in 8 year Smart cost forecast as reported in the 2016/17 RRP

CHANGE IN 8 YEAR SMART METERING PROFILE	2013/14	2014/15	2015/16	2016/17	2018/19	2019/20	2020/21	2021/22
2016/17 RRP	0.4	0.7	1.4	2.7	20.5	26.8	15.3	15.4
2015/16 RRP	0.4	0.7	1.4	4.6	25.8	33.8	19.3	19.3
DIFFERENCE	-	-	-	(1.9)	(5.3)	(6.9)	(3.9)	(4.0)
CADENT (£M)	-	-	-	(1.9)	(5.3)	(6.9)	(3.9)	(4.0)

Note figures above in 16/17 prices

Collectable revenue trace: Pension Funding

PENSION DEFICIT FUNDING		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	8.9	4.8	4.1	(14.6)
LONDON (£M)	▲	5.2	2.9	2.3	(8.5)
NORTH WEST (£M)	▲	6.1	3.5	2.9	(10.0)
WEST MIDLANDS (£M)	▲	4.4	2.5	2.1	(7.0)
CADENT (£M)	▲	24.7	13.7	11.4	(40.0)
EAST OF ENGLAND (%)	▲	+1.4%	+0.7%	+0.6%	(2.2%)
LONDON (%)	▲	+1.2%	+0.6%	+0.5%	(1.6%)
NORTH WEST (%)	▲	+1.4%	+0.7%	+0.6%	(1.9%)
WEST MIDLANDS (%)	▲	+1.3%	+0.7%	+0.6%	(1.8%)
CADENT (%)	▲	+1.3%	+0.7%	+0.6%	(1.9%)

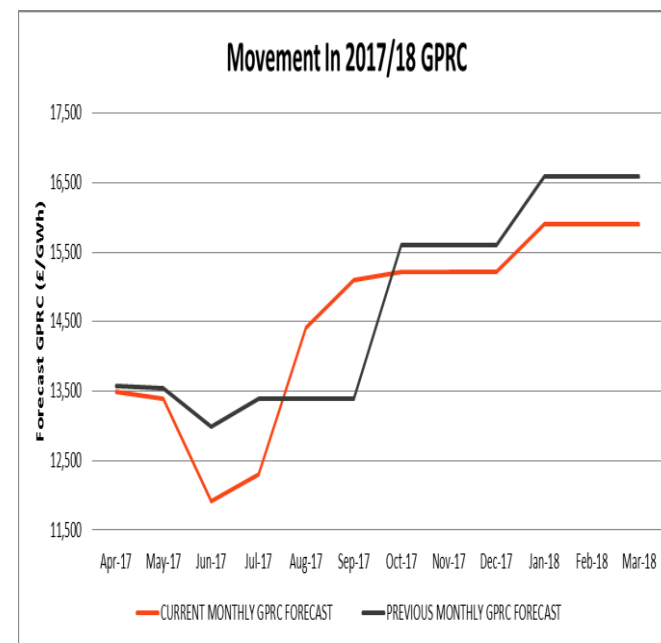
- Positions shown are relative to previous forecast
- Although changes to pensions deficit funding arrangements have been previously discussed as a risk item and discussed with Shippers, they had not previously been fully reflected in the forecast pending clarity on the current triennial review
- Starting to lock down for indicative and final charges means that we need to take a view for the Sep-17 MOD0186
- The triennial pension review is currently in progress and we expect to have a clearer picture by the end of September, but we consider our 2018/19 forecast to be robust

Collectable revenue trace: Gas Prices

GAS PRICE REFERENCE COST		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	-	0.0	0.1	(0.4)
LONDON (£M)	▲	-	0.0	0.1	(0.2)
NORTH WEST (£M)	▲	-	0.0	0.1	(0.3)
WEST MIDLANDS (£M)	▲	-	0.0	0.1	(0.2)
CADENT (£M)	▲	-	0.0	0.4	(1.1)
EAST OF ENGLAND (%)	▲	-	+0.0%	+0.0%	(0.1%)
LONDON (%)	▲	-	+0.0%	+0.0%	(0.0%)
NORTH WEST (%)	▲	-	+0.0%	+0.0%	(0.1%)
WEST MIDLANDS (%)	▲	-	+0.0%	+0.0%	(0.1%)
CADENT (%)	▲	-	+0.0%	+0.0%	(0.1%)

- Positions shown are relative to previous forecast
- Gas prices have risen slightly for 2017/18 and 2018/19, but have reduced for 2019/20 onwards
- As a result of the 2 year lag, this has resulted in minor movements in allowed revenue from 2019/20 onwards

GAS PRICE REFERENCE COST	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
PREVIOUS (£/GWH)	13291	14480	14496	14931	15379	15840
CURRENT (£/GWH)	13291	14491	14733	14578	14883	15330
Change (£/GWH)	-	11	237	-353	-495	-510
% Change	-	+0.1%	+1.6%	(2.4%)	(3.2%)	(3.2%)



Collectable revenue trace: Shrinkage & Leakage

SHRINKAGE & LEAKAGE VOLUMES		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▼	(0.3)	(1.6)	(1.2)	(0.2)
LONDON (£M)	▲	0.4	1.4	0.3	(0.1)
NORTH WEST (£M)	▲	0.5	0.4	0.2	0.2
WEST MIDLANDS (£M)	▼	0.3	(0.1)	(0.4)	(0.2)
CADENT (£M)	▼	0.9	0.2	(1.1)	(0.4)
EAST OF ENGLAND (%)	▼	(0.1%)	(0.2%)	(0.2%)	(0.0%)
LONDON (%)	▲	+0.1%	+0.3%	+0.1%	(0.0%)
NORTH WEST (%)	▲	+0.1%	+0.1%	+0.0%	+0.0%
WEST MIDLANDS (%)	▼	+0.1%	(0.0%)	(0.1%)	(0.0%)
CADENT (%)	▲	+0.0%	+0.0%	(0.1%)	(0.0%)

- Positions shown are relative to previous forecast
- Aligned to forecasts submitted in 2016/17 RRP and we expect to hold at this level until the next submission
- Impact is largely a re-profiling effect

SHRINKAGE	2016/17	2017/18	2018/19	2019/20	2020/21
Mar-17 (gWh)	1312.8	1272.8	1220.0	1177.5	1136.7
Aug-17 (gWh)	1307.4	1274.3	1229.1	1184.8	1141.9
% Change	(0.4%)	+0.1%	+0.7%	+0.6%	+0.5%

LEAKAGE	2016/17	2017/18	2018/19	2019/20	2020/21
Mar-17 (gWh)	1234.2	1195.1	1143.5	1101.6	1061.8
Aug-17 (gWh)	1225.6	1191.6	1146.7	1102.6	1060.5
% Change	(0.7%)	(0.3%)	+0.3%	+0.1%	(0.1%)

Collectable revenue trace: Exit Capacity

EXIT CAPACITY VOLUMES		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	-	0.2	0.1	(0.5)
LONDON (£M)	▲	-	-	-	-
NORTH WEST (£M)	▲	-	0.5	(0.0)	(1.3)
WEST MIDLANDS (£M)	▲	-	0.1	0.1	0.0
CADENT (£M)	▲	-	0.8	0.1	(1.8)
EAST OF ENGLAND (%)	▲	-	+0.0%	+0.0%	(0.1%)
LONDON (%)	▲	-	-	-	-
NORTH WEST (%)	▲	-	+0.1%	(0.0%)	(0.2%)
WEST MIDLANDS (%)	▲	-	+0.0%	+0.0%	+0.0%
CADENT (%)	▲	-	+0.0%	+0.0%	(0.1%)

- Positions shown are relative to previous forecast
- Low level benefits can be seen from updated NTS Exit (Flat) Capacity booking volumes
- The reduction to 2021/22 is the result of aligning base revenue allowances to expected level of cost in the first year of GD-2

Collectable revenue trace: Stakeholder

2016/17 STAKEHOLDER ENGAGEMENT		2018/19	2019/20	2020/21	2021/22
EAST OF ENGLAND (£M)	▲	0.6	-	-	-
LONDON (£M)	▲	0.4	-	-	-
NORTH WEST (£M)	▲	0.4	-	-	-
WEST MIDLANDS (£M)	▲	0.3	-	-	-
CADENT (£M)	▲	1.7	-	-	-
EAST OF ENGLAND (%)	▲	+0.1%	-	-	-
LONDON (%)	▲	+0.1%	-	-	-
NORTH WEST (%)	▲	+0.1%	-	-	-
WEST MIDLANDS (%)	▲	+0.1%	-	-	-
CADENT (%)	▲	+0.1%	-	-	-

- Positions shown are relative to previous forecast
- Reflects final Stakeholder Engagement Score of 6.90 for 2016/17
- This is 15.8% higher than initial forecasts of 5.96. As a result of the 2 year lag this has resulted in a £1.7m increase in revenue in 2018/19
- We have now seen a draft of Ofgem’s actual financial (£) award, which is aligned to our expectation of £5.3m
- Scores for future years are currently maintained at the level of the last business plan

STAKEHOLDER ENGAGEMENT SCORES	2016/17	2017/18	2018/19	2019/20	2020/21
Jun-17	5.96	6.04	6.94	6.95	7.01
Sep-17	6.90	6.04	6.94	6.95	7.01
% Change	+15.8%	-	-	-	-

Risks and Uncertainties

- Further reductions in NIA spend have been signposted in the September MOD0186 report as a risk item. We will provide further clarification on this as it materialises, as this is one of the few areas that has an in year allowed revenue impact
- As previously mentioned, with 2018/19 Indicative charges due at the end of October we have reflected a view on changes to pension deficit funding into the forecast. We consider this to be a robust position, but will have more clarity on the triennial pension review by the end of September

RIO GD-2 Base Revenue Forecast

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	34.4
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(5.7)	(2.8)	(2.9)	(0.2)	(11.6)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(3.0)	(1.7)	(2.1)	(1.8)	(8.5)
TAX AT 17%	(6.1)	(4.4)	(4.5)	(3.5)	(18.5)
COST OF DEBT AT 0.99%	(31.1)	(23.3)	(22.0)	(16.8)	(93.2)
2020/21 ADJUSTED BASE REVENUE	449.2	332.5	340.1	254.5	1,376.2
NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE	712.6	498.6	517.9	387.8	2,117.0
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(1.5)	25.2	15.8	9.9	49.4
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	(8.1)	(4.0)	(4.1)	(0.3)	(16.6)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(4.3)	(2.4)	(2.9)	(2.6)	(12.2)
TAX AT 17%	(8.7)	(6.3)	(6.5)	(5.1)	(26.6)
COST OF DEBT AT 0.99%	(44.6)	(33.5)	(31.6)	(24.1)	(133.8)
2020/21 ADJUSTED BASE REVENUE	645.2	477.5	488.4	365.5	1,976.6

- We are continuing with our approach for forecasting into GD-2
- Approach is to flex 2020/21 base revenue per final proposals for items that we can reasonably predict at this stage, namely:
 - Business rates
 - Licence fees
 - Exit capacity costs
 - Shrinkage costs
 - Tax
 - Cost of debt

RIO GD-2 Base Revenue Movement

2009/10 PRICES	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE	-	-	-	-	-
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	0.0	0.0	0.0	0.0	0.0
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(0.2)	0.0	(0.6)	0.1	(0.7)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)
TAX AT 17%	(0.3)	(0.1)	(0.2)	(0.0)	(0.7)
COST OF DEBT ADJUSTED FROM 1.2% TO 0.99%	(5.3)	(2.6)	(2.4)	(1.9)	(12.1)
2020/21 ADJUSTED BASE REVENUE	(5.9)	(2.8)	(3.4)	(1.9)	(13.9)
NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 BASE REVENUE	(4.0)	(2.8)	(2.9)	(2.2)	(11.9)
ADJ FOR BUSINESS RATES AT 2020/21 LEVEL	(0.0)	(0.2)	(0.1)	(0.1)	(0.4)
ADJ FOR LICENCE FEES AT 2020/21 LEVEL	0.0	0.0	0.0	0.0	0.0
ADJ FOR EXIT CAPACITY COSTS AT 2020/21 LEVEL	(0.2)	0.1	(0.9)	0.1	(0.9)
ADJ FOR SHRINKAGE COSTS AT 2020/21 LEVEL	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)
TAX AT 17%	(0.5)	(0.2)	(0.3)	(0.0)	(0.9)
COST OF DEBT ADJUSTED FROM 1.2% TO 0.99%	(7.4)	(3.5)	(3.3)	(2.5)	(16.8)
2020/21 ADJUSTED BASE REVENUE	(12.1)	(6.7)	(7.7)	(4.8)	(31.3)

- 2020/21 Base Revenue has reduced by £31.3m since the Jun Mod0186 Report.
- This is largely driven by the revision to the cost of debt forecast from 1.2% to 0.99% noted previously
- Other areas are dynamically linked to changes in cost forecast

Maximum Allowed Revenue Forecast - RIIO GD-2

NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 ADJUSTED BASE REVENUE	645.2	477.5	488.4	365.5	1,976.6
PASS THROUGH	(11.6)	21.0	9.9	5.6	24.8
EXIT CAPACITY (INCENTIVE)	7.9	3.7	5.2	1.9	18.8
EXIT CAPACITY (COST PASS THROUGH)	(6.8)	(2.9)	(2.6)	0.9	(11.4)
SHRINKAGE INCENTIVE	0.6	0.4	0.4	0.3	1.7
SHRINKAGE COST PASS THROUGH	(4.5)	(2.6)	(3.2)	(2.8)	(13.0)
BROAD MEASURE OF CUSTOMER SATISFACTION	5.2	3.6	3.7	2.8	15.3
ENVIRONMENTAL EMISSIONS INCENTIVE	4.0	2.4	2.7	2.2	11.3
DISCRETIONARY REWARD SCHEME	-	-	-	-	-
NETWORK INNOVATION ALLOWANCE	4.1	3.0	3.1	2.3	12.5
UNDER / OVER COLLECTION B/F	-	-	-	-	-
2021/22 MAXIMUM ALLOWED REVENUE	644.0	506.2	507.7	378.7	2,036.6

- Maximum Allowed Revenue has reduced by £74.5m
- In addition to the base revenue movements already discussed, the majority of the remaining change relates to the release of pension funding changes into the forecast

TRACE - NOMINAL (2021/22)	EE	LO	NW	WM	CADENT
2020/21 ADJUSTED BASE REVENUE	(12.1)	(6.7)	(7.7)	(4.8)	(31.3)
PASS THROUGH	(14.9)	(8.9)	(10.4)	(7.5)	(41.7)
EXIT CAPACITY (INCENTIVE)	0.2	(0.0)	0.9	(0.0)	1.1
EXIT CAPACITY (COST PASS THROUGH)	(0.3)	0.0	(1.1)	0.0	(1.3)
SHRINKAGE INCENTIVE	(0.1)	(0.0)	(0.0)	(0.1)	(0.3)
SHRINKAGE COST PASS THROUGH	0.0	(0.1)	(0.1)	(0.1)	(0.2)
BROAD MEASURE OF CUSTOMER SATISFACTION	(0.1)	(0.1)	(0.1)	(0.0)	(0.2)
ENVIRONMENTAL EMISSIONS INCENTIVE	(0.4)	(0.0)	0.2	(0.2)	(0.4)
DISCRETIONARY REWARD SCHEME	-	-	-	-	-
NETWORK INNOVATION ALLOWANCE	(0.1)	(0.0)	(0.0)	(0.0)	(0.2)
UNDER / OVER COLLECTION B/F	-	-	-	-	-
2021/22 MAXIMUM ALLOWED REVENUE	(27.8)	(15.8)	(18.2)	(12.6)	(74.5)

Response to Ofgem's RIIO GD-2 Consultation

- Cadent published its response on 4th September
- Material and contact functionality now available on a dedicated section of our website

<http://cadentgas.com/About-us/Regulation/RIIO>

- 4 main messages:
 - 1. Evolution of the RIIO framework to deliver outcomes that customers want and need*
 - 2. Management of interactions between sectors to create lowest cost pathway to decarbonisation of heat and transport*
 - 3. Opportunity for GDNs to realistically achieve fair returns clearly aligned to improvements in customer outcomes*
 - 4. RIIO GD-2 framework must evolve to be adaptable and responsive to regional energy strategies*
- Please do have a read through and feel free to raise any questions via the web page, or through your Cadent points of contact

2018/19 Price Change

CURRENT VIEW OF 2018/19 PRICE CHANGE	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	+3.8%	+3.6%	+4.2%	+5.5%	+4.2%
CORRECTION FOR CURRENT YEAR OVER / UNDER RECOVERY	+0.1%	+0.1%	(0.0%)	(0.0%)	+0.1%
IMPACT OF LOAD FACTORS ON SOQ	(0.3%)	(0.1%)	(0.1%)	+0.1%	(0.2%)
CHANGE IN AGGREGATE DEMAND	+0.0%	+0.4%	+0.0%	(0.4%)	+0.0%
AGGREGATE PRICE CHANGE	+3.6%	+4.0%	+4.1%	+5.2%	+4.1%

- Indicative prices due at the end of October.
- A few areas of remaining uncertainty at this stage, but unlikely that any would make more than +/- 0.2% impact on prices:
- Notional inflation is based on the November HM Treasury Forecasts for the UK economy but year ahead appears reasonably stable so far
- Cost of debt forecast tracks down in the medium term, but we have recent forecast that should be representative for Nov-17
- Whilst we consider our PCFM forecast to be robust, as mentioned previously determination of the current triennial pension review is still to be concluded.
- Chargeable volumes will crystallise in December, so will continue to evolve until then. Direction of travel appears to be reduction in AQs (and therefore SOQs) so potentially upward impact on prices.
- Potential further reductions in NIA spend have been signposted in the September MOD0186 report as a risk item. We will monitor this closely ahead of indicative and final price setting.



End of slides

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