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September 2017
MOD 186

Accompanying Narrative

WALES&WEST UTILITIES

Movement Since June 2017

		2017/18	2018/19	2019/20	2020/21	2021/22	Explanation
Reported at the last DCMF		403.5	436.9	479.9	464.5	445.2	
Base Revenue and MODt	⇩		(7.5)	(5.9)	(6.9)	(6.7)	Increased give back from the Tax element of the PCFM. Small changes in TOTEX outperformance to reflect RRP
Inflation	⇩		(0.3)	(0.6)	(0.4)	(0.5)	Includes the forecast from June which included less future inflation
Cost True Up	⇩	(0.4)	(1.5)	(2.1)	(2.0)	(4.0)	Further increases for future NBP price for gas impacting shrinkage. Slightly reduced bookings decreasing NTS cost true up. £0.4m in 17/18 reflects theft of gas pass back
Incentives	⇧	0.1	(0.0)	1.6	1.6	3.0	Reflecting 2016/17 RRP. Increasing amount for Exit based on the higher indicative prices and slightly reduced volumes
Collection	⇩		0.4	(0.8)	(0.0)	-	
Reported in the latest MOD186	⇩	403.2	428.0	472.1	456.8	436.9	
Net Movement	⇩	(0.3)	(8.9)	(7.8)	(7.7)	(8.2)	

2021/22 – Reminder of requirements

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

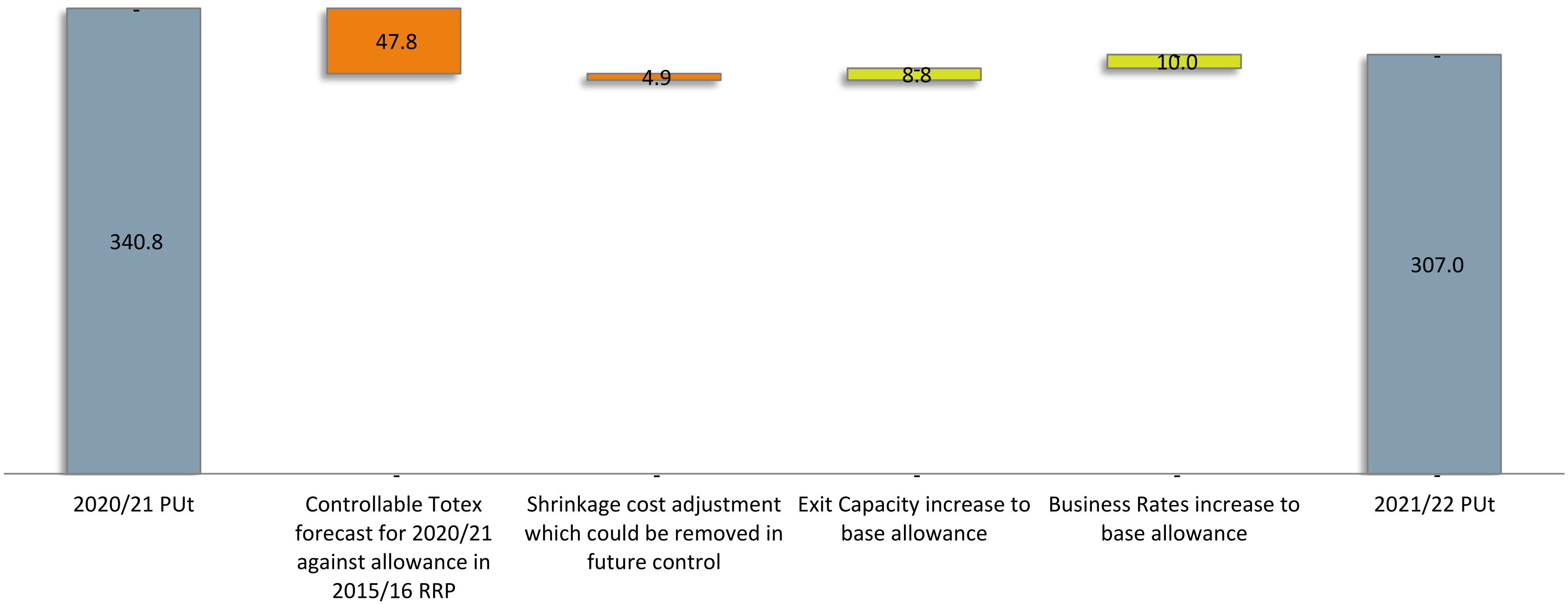
"The GDNs' concerns about the potential for such information to be misleading is noted, and the Authority considers that the assumptions need to be carefully considered and clearly stated so that shippers understand the basis of these forecasts."

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	
Inflation index	RPI
Incentives	2021/22 includes the forecast of the T+2 from GD1 2019/20. 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. 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
Base revenue	See next slide
Everything else	Continues in line with GD1 FPs

2021/22 – Forecast (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.

Furthermore certain information presented is done so to maintain consistency between networks, most notably RPI forecasts which reflect the latest published view by HM Treasury and consequently can be different from the expected outturn internally which may use other information to inform forecasting.

Thank you

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