



# December 2022 MOD0186

Shonalee Maurya & Drew Sambridge



# Key Updates for December 2022 MOD0186

Since the September MOD0186 report the November OBR economic forecast has been published which materially impacts allowances and revenue. For the December MOD0186 report, key changes since September include updates to;

- Inflationary impact on revenues and allowances
- Allowed returns that have now been indexed to reflect higher interest rates; and
- Lower rateable value impacting business rates; and
- The impact of including provisional values for the close out of RIIO-1, largely impacting RAV from disposals

Shrinkage costs remain volatile and we will continue to work with Ofgem to ensure that the Latest Best Estimates are included prior to agreeing the levels to use for charge setting

Ofgem released SoLR values for 2023/24 and with the recent approval of MOD0809 allowing for the recovery of the LRSP charges to include all relevant supply points including IGT supply points.

We have also included the December demand picture for SOQ in our assessment of unit prices (included in the excel attachment), however, some demand data is outstanding and this will be reflected in final charge notifications. The overall demand picture shows a significant reduction relative to December 2021 data impacting unit prices.

# Movement in forecast Allowed Revenue for the year 23/24

## Inflation:

Latest release of November'22 OBR forecast has been updated for.

## Cost of capital

Ofgem index the cost of capital annually. The increase reflect the higher rates environment in 2022.

## Shrinkage:

Using latest UK Gas Price information, Shrinkage costs linked to the day ahead rate for gas leaking the network are now forecast to be lower in 2023/24 than when completing the September MOD0186.

## Business Rates:

The reduction in the Rateable Value compared to 2017 Rateable Value is mainly due to the returns under RIIO-GD2 being less than RIIO-GD1 and lower Meter valuations due to our Rating experts agreeing a lower value for the smart meters.

## SoLR Costs:

Following Ofgem's publication of SoLR costs these have been updated for across the four networks.

## Close out:

Provisional view of close out adjustments now included, largely impacting the disposals from our London network.

	2022/23	2023/24	2024/25	2025/26
SEPT MOD0186 - CPIH Year on Year change	7.69%	3.33%	1.69%	1.91%
DEC MOD0186 - CPIH Year on Year change	8.77%	5.20%	0.32%	-0.45%
Delta	1.07%	1.87%	-1.37%	-2.36%

CADENT	LDZ	ECN	SOLR	TOTAL
<b>SEPTEMBER MOD0186 - 23/24 ALLOWED REVENUE</b>	<b>2,120.2</b>	<b>148.7</b>	<b>-</b>	<b>2,268.9</b>
CUMULATIVE INFLATION (NOTE: DEC USES NOV '22 OBR, SEPT USES MARCH '22 OBR)	72.4	-	-	72.4
CHANGE TO COST OF CAPITAL (WACC)	44.1	-	-	44.1
SHRINKAGE COSTS (INC. TRUE-UP ADJt)	(80.1)	-	-	(80.1)
PRESCRIBED RATES (INC. TRUE-UP ADJt)	(37.6)	-	-	(37.6)
SoLR CLAIMS; AS DIRECTED BY OFGEM	-	-	111.7	111.7
CHANGE TO RPEs	(7.5)	-	-	(7.5)
LEGACY (inc. RIIO-1 CLOSEOUT & DISPOSALS), TIMING, AND OTHER	(47.4)	(7.9)	-	(55.2)
<b>DECEMBER MOD0186 - 23/24 ALLOWED REVENUE</b>	<b>2,064.2</b>	<b>140.9</b>	<b>111.7</b>	<b>2,316.7</b>
MOVEMENT IN ALLOWED REVENUE	(56.0)	(7.9)	111.7	47.8
MOVEMENT IN ALLOWED REVENUE - %	(2.6%)	(5.3%)	n/a	2.1%

	EAST	LONDON	NORTH WEST	WEST MIDLANDS
LDZ ALLOWED REVENUE CHANGE - 22/23 TO 23/24	5.4%	-10.9%	6.6%	-0.3%
ECN ALLOWED REVENUE CHANGE - 22/23 TO 23/24	-41.4%	-41.1%	-29.1%	-43.5%
SoLR ALLOWED REVENUE CHANGE - 22/23 TO 23/24	-73.0%	-72.8%	-72.8%	-72.8%

# Next Steps

- The main up-dates we would expect will result from continued changes to the volatile gas prices impacting shrinkage costs.
- Ofgem are expected to release the latest version of the PCFM in early January to reflect changes to inflation, shrinkage, and business rates.
- Completion of final charges notice due 31 January 2023

# Appendix

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
-------------	--------------	------------	---------	---------	---------	---------	---------

**TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE**

1	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	646.1	921.5	806.8	778.3	776.9
2	TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)		%	(3.2)%	(1.2)%	5.3%	(0.2)%	(0.1)%
3	TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE		%	161.5%	61.4%	(41.4)%	25.0%	(1.1)%
4	TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE		%	1.3%	42.6%	(12.4)%	(3.5)%	(0.2)%

**TABLE 2: ALLOWED REVENUE COMPOSITION**

5	BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	594.7	747.8	645.1	616.0	617.8
6	TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.6	2.5	3.0	3.1
7	BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	0.2	0.2	0.2	0.2
8	OTHER REVENUE ALLOWANCES	ORAt	18/19	5.5	4.7	5.2	5.8	5.6
9	OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
10	TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	600.2	753.4	653.1	625.1	626.7
11	FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	Pit / PI2018/19		1.0525	1.1189	1.2412	1.2452	1.2396
12	INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	31.5	89.6	157.5	153.3	150.1
13	TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	631.8	842.9	810.6	778.3	776.9
14	ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(0.5)	48.4	(6.0)	-	-
15	CORRECTION TERM; K FACTOR	Kt	NOMINAL	2.3	(0.1)	2.7	-	-
16	LEGACY REVENUE	LARt	NOMINAL	12.5	30.3	(0.5)	-	-
17	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	646.1	921.5	806.8	778.3	776.9
18	Operating Allowance Assessment Allowed Revenue	ARt	NOMINAL	673.3	935.2	806.8	778.3	776.9

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
-------------	--------------	------------	---------	---------	---------	---------	---------

**TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE**

1	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	468.4	651.1	512.8	545.7	550.5
2	TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)		%	4.0%	5.6%	(11.0)%	10.3%	1.0%
3	TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE		%	78.7%	47.9%	(41.1)%	30.8%	(0.9)%
4	TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE		%	1.6%	39.0%	(21.3)%	6.4%	0.9%

**TABLE 2: ALLOWED REVENUE COMPOSITION**

5	BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	428.8	522.0	446.9	433.0	438.4
6	TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	1.0	1.7	2.0	2.6
7	BUSINESS PLAN INCENTIVE	BPit	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
8	OTHER REVENUE ALLOWANCES	ORAt	18/19	3.2	2.6	2.9	3.2	3.0
9	OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
10	TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	432.0	525.6	451.5	438.2	444.1
11	FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	Pit / PI2018/19		1.0525	1.1189	1.2412	1.2452	1.2396
12	INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	22.7	62.5	108.9	107.4	106.4
13	TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	454.6	588.0	560.4	545.7	550.5
14	ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	0.8	35.1	(44.7)	-	-
15	CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.7	(2.3)	4.2	-	-
16	LEGACY REVENUE	LARt	NOMINAL	11.3	30.3	(7.1)	-	-
17	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	468.4	651.1	512.8	545.7	550.5
18	Operating Allowance Assessment Allowed Revenue	ARt	NOMINAL	472.4	638.9	512.8	545.7	550.5

CADENT GAS LTD - NORTH WEST NETWORK

DEC-22 MOD0186

DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
-------------	--------------	------------	---------	---------	---------	---------	---------

TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE

1	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	453.2	640.5	585.4	543.1	540.6
2	TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)		%	(5.5)%	3.0%	6.8%	(4.4)%	(0.4)%
3	TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE		%	(4.1)%	22.5%	(29.1)%	22.9%	(0.6)%
4	TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE		%	(4.9)%	41.3%	(8.6)%	(7.2)%	(0.4)%

TABLE 2: ALLOWED REVENUE COMPOSITION

5	BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	414.0	521.0	455.9	429.9	430.1
6	TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.1	2.3	2.4	2.3
7	BUSINESS PLAN INCENTIVE	BPIt	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
8	OTHER REVENUE ALLOWANCES	ORAt	18/19	3.7	3.1	3.5	3.9	3.7
9	OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
10	TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)	Rt	18/19	417.7	524.2	461.6	436.1	436.1
11	FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	Pit / PI2018/19		1.0525	1.1189	1.2412	1.2452	1.2396
12	INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	21.9	62.3	111.3	106.9	104.5
13	TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)	Rt	NOMINAL	439.6	586.6	572.9	543.1	540.6
14	ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(2.0)	33.9	1.2	-	-
15	CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.7	2.6	11.9	-	-
16	LEGACY REVENUE	LARt	NOMINAL	13.9	17.5	(0.6)	-	-
17	ALLOWED REVENUE (AS PUBLISHED)	ARt	NOMINAL	453.2	640.5	585.4	543.1	540.6
18	Current Gas Assessment Allowed Revenue	ARt	NOMINAL	477.4	656.0	585.4	543.1	540.6



DESCRIPTION	LICENCE TERM	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
-------------	--------------	------------	---------	---------	---------	---------	---------

**TABLE 1: ALLOWED REVENUE & ARITHMETICAL PRICE CHANGE**

<b>1</b>	<b>ALLOWED REVENUE (AS PUBLISHED)</b>	<b>ARt</b>	<b>NOMINAL</b>	<b>338.1</b>	<b>484.0</b>	<b>411.7</b>	<b>412.9</b>	<b>412.4</b>
<b>2</b>	TOTAL LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE (EXCL SOLR)		%	(7.0)%	3.8%	(0.5)%	3.2%	(0.0)%
<b>3</b>	TOTAL ECN CHARGES ARITHMETICAL PRICE CHANGE		%	30.0%	39.4%	(43.5)%	42.2%	(1.2)%
<b>4</b>	<b>TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE</b>		%	<b>(3.9)%</b>	<b>43.1%</b>	<b>(14.9)%</b>	<b>0.3%</b>	<b>(0.1)%</b>

**TABLE 2: ALLOWED REVENUE COMPOSITION**

<b>5</b>	BASE REVENUE (INCLUDING TAX ALLOWANCE)		18/19	318.6	398.4	341.0	327.4	328.5
<b>6</b>	TOTAL OUTPUT DELIVERY INCENTIVE	ODIt	18/19	-	0.1	1.1	1.4	1.5
<b>7</b>	BUSINESS PLAN INCENTIVE	BPit	18/19	0.0	(0.0)	(0.0)	(0.0)	(0.0)
<b>8</b>	OTHER REVENUE ALLOWANCES	ORAt	18/19	2.7	2.3	2.6	2.9	2.8
<b>9</b>	OTHER REVENUE TOTAL (inc. SIU/Cross subsidy adj.)	CSUBt/DRSt	18/19	-	-	-	-	-
<b>10</b>	<b>TOTAL CALCULATED REVENUE (FIXED 18/19 PRICES)</b>	<b>Rt</b>	<b>18/19</b>	<b>321.3</b>	<b>400.8</b>	<b>344.7</b>	<b>331.6</b>	<b>332.7</b>
<b>11</b>	FORECAST INFLATION FACTOR; CPIH (AS PUBLISHED)	Pit / PI2018/19		1.0525	1.1189	1.2412	1.2452	1.2396
<b>12</b>	INFLATION TRUE-UP TO NOMINAL PRICES		NOMINAL	16.9	47.6	83.1	81.3	79.7
<b>13</b>	<b>TOTAL CALCULATED REVENUE NOMINAL (AS PUBLISHED)</b>	<b>Rt</b>	<b>NOMINAL</b>	<b>338.2</b>	<b>448.5</b>	<b>427.9</b>	<b>412.9</b>	<b>412.4</b>
<b>14</b>	ADJUSTMENT TERM (prior years movement in allowances)	ADJt	NOMINAL	(1.6)	28.5	(16.6)	-	-
<b>15</b>	CORRECTION TERM; K FACTOR	Kt	NOMINAL	1.4	0.9	1.4	-	-
<b>16</b>	LEGACY REVENUE	LARt	NOMINAL	0.1	6.1	(0.9)	-	-
<b>17</b>	<b>ALLOWED REVENUE (AS PUBLISHED)</b>	<b>ARt</b>	<b>NOMINAL</b>	<b>338.1</b>	<b>484.0</b>	<b>411.7</b>	<b>412.9</b>	<b>412.4</b>
<b>18</b>	Current Assessment Allowed Revenue	ARt	NOMINAL	349.1	486.4	411.7	412.9	412.4