

NGN Mod186 Pricing Statement

Movement from October to December 2022

**we are
the network**

Summary of updates Oct Dec – largest movements:

- **Inflation:**

- Inflation remains high @ 8.8% in 22/23, we have now included November 22 OBR forecast, which predicts inflation to be 5.2% for 23/24, this has resulted in an increase to allowed revenue of £23.1M for 23/24.

- **Shrinkage:**

- Our current forecasts include process of 22/23 @ £2.37 per therm, 23/24 @ £3.58, 24/25 @ £2.49 and 25/26 @ £1.168.

- **Rates**

- There has been a reduction in business rates which has resulted in a reduction in allowed revenue of £9.6M in 23/24.

- **Other things to consider:**

- SOLR: Final minded to decisions have been published OfGem so this price change has been included.
- Real price effects: Ofgem have updated the indices used to account for the latest view of inflation.
- WACC: The regulator has updated the cost of debt calculation to account for the latest iBoxx indices, and the equity cost calculation to account for the latest view of yields from UK government securities

Timeline between now and 23/24 60 day notice

As a guide this is the process between now and 31st January; in terms of other changes which may impact the price change for 23/24:

- The Annual Iteration Process (AIP) was completed and published in November and we have used the latest draft of the PCFM, issued by e-mail following the update for latest OBR forecast, therefore no further changes are expected.
- Shrinkage – dependant on gas price variations vs. what is currently assumed, possible amendment.
- SOLR – we have included the minded to decisions from Ofgem, therefore, no further changes are expected.
- Capacity– we will review the snapshot of capacity data taken on c. 1st Dec by Xoserve. Whilst this doesn't impact the value of Allowed Revenue it will impact on the price change needed. We have currently assumed a reduction in the SOQ of 5.3%.

Mod 186 - September to December 2022

	21/22	22/23	23/24	24/25	25/26	GD2	
Mod 186 : September	Calculated revenue	430.7	562.9	550.3			
	AIP adjustment term	-	23.2	(0.6)			
	Adjusted revenue	430.7	586.1	549.7	531.2	535.1	2,633
	Legacy Allowed Revenue	(13.8)	10.8	-	-	-	
	K Correction Factor	0.2	0.4	(2.1)	-	-	
	Allowed Revenue	417.2	597.2	547.5	531.2	535.1	2,628
	Recovered Revenue	421.2	599.4	547.5	531.2	535.1	
	Inflation %	4.5%	7.7%	3.3%	1.7%	1.9%	
	SOQ % Change	1.4%	(0.1)%	-	-	-	
LDZ Price Change	(13.7)%	15.4%	7.9%	0.7%	0.9%		
Mod 186 : Latest Position	Calculated revenue	430.7	566.2	575.2	554.5	546.7	
	AIP adjustment term	-	23.3	(6.0)	-	-	
	Adjusted revenue	430.7	589.6	569.2	554.5	546.7	2,691
	Legacy Allowed Revenue	(13.8)	10.8	0.1	0.7	0.4	
	K Correction Factor	0.2	0.4	1.4	-	-	
	Allowed Revenue	417.2	600.7	570.7	555.2	547.1	2,691
	Recovered Revenue	421.2	598.6	570.7	555.2	547.1	
	Inflation %	4.5%	8.8%	5.2%	0.3%	(0.5)%	
	SOQ % Change	1.4%	(0.1)%	(5.3)%	-	-	
LDZ Price Change	(13.7)%	15.4%	19.9%	0.4%	(1.5)%		
Difference	Calculated revenue	-	3.3	24.9			
	AIP adjustment term	-	0.2	(5.4)			
	Adjusted revenue	-	3.5	19.5	23.3	11.6	58
	Legacy Allowed Revenue	-	-	0.1	0.7	0.4	
	K Correction Factor	-	(0.0)	3.6	-	-	
	Allowed Revenue	-	3.5	23.1	24.0	12.0	62.6
	Recovered Revenue	-	(0.7)	23.1	24.0	12.0	
	Inflation %	-	1.1%	1.9%	(1.4)%	(2.4)%	
	SOQ % Change	-	-	(5.3)%	-	-	
LDZ Price Change	-	-	12.0%	(0.4)%	(2.4)%		

Movements from September to December 2022

Breakdown of movements		23/24 Breakdown			24/25	25/26	GD2
		Adj impact from 22/23	Reforecast 23/24	Total	Reforecast	Reforecast	
Adjusted Revenue movements	Inflation	3.6	11.2	14.9	8.5	(3.2)	20.2
	Shrinkage	(3.9)	12.9	9.0	9.4	5.0	23.3
	Totex changes	0.8	1.2	2.0	1.8	2.4	6.2
	Last resort claims	(0.0)	(1.1)	(1.1)			(1.1)
	Rates	0.1	(9.6)	(9.6)	(10.3)	(11.3)	(31.2)
	Licensed Activity	0.1	0.1	0.2	0.1	0.0	0.3
	Other	(1.5)	(0.5)	(2.0)	0.2	(0.2)	1.5
	Cost of Debt		1.6	1.6	5.0	8.0	14.5
	Cost of Equity		11.1	11.1	10.3	10.4	31.8
	RPEs	(0.6)	(2.1)	(2.7)	(1.6)	(0.8)	(5.1)
	Disposals	(0.3)		(0.3)	(0.1)	(0.2)	(0.6)
	Tax			-	0.7	1.9	2.6
Total movement		(1.8)	24.9	23.1	24.0	12.0	62.6

Pipeline of re-opener applications

RRP Table 11.05	HSE policy Re-opener	Specified Streetworks Costs Re-opener
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21/22	0.5	2.3
22/23	1.5	2.9
23/24	6.5	2.8
24/25	10.0	2.9
25/26	10.0	2.5

These are the largest reopeners as presented in Table 11.05 in RRP. Note this is the expenditure level increase not revenue – revenue increase would be smaller due to fast/slow money mechanics.