

10 January 2023
MOD 186

Accompanying Narrative



Movements Since 20 September 2022

		2021/22	2022/23	2023/24	2024/25	2025/26	Explanation
		£'m nominal					
Reported at the last DNCMF (20 September 2022)		444.6	611.4	541.9	529.2	537.6	
Updates for Price Control Deliverables & Uncertainty Mechanisms and Other Revenue Allowances	↓	-	-	(2.8)	(1.3)	(0.5)	Updates to Price Control Deliverables & Uncertainty Mechanisms to reflect the latest Special Conditions of the Licence and forecasts
Legacy adjustments in respect of the closeout of RIIO-GD1	↓	-	-	(2.6)	(1.9)	(0.9)	Updated legacy values for RIIO-GD1 relating to TRU term, net RAV additions (after disposals) and fuel pool following the decision in respect of the closeout methodology for RIIO-GD1
Shrinkage costs	↑	-	-	(1.5)	7.0	5.1	Updated to reflect revised shrinkage forecast costs based on a 4 week averages of prices per therm in December 2022
Exit Capacity	↓	-	-	(10.5)	(4.8)	(4.9)	Updated exit capacity charges to reflect the latest rates per NTS
SoLR valid claims	↑	-	-	22.7	-	-	Updated SoLR values to recover amounts included within valid claims for SoLRs appointed in 2021 and 2022 published by Ofgem in December 2022
WACC Allowance Model and RPE updates	↑	-	-	11.2	13.3	16.3	Updated WACC Allowance Model and RPE workbook provided by Ofgem in November 2022 resulting in updates to financing inputs, the risk free rate and RPEs reflecting March 2022 OBR predictions
Pension Scheme Established Deficit Repair	↑	-	-	9.3	4.8	4.9	Updated to reflect the allowances per the latest Triennial Valuation and the RRP for 2021/22 updated accordingly
Business rates	↓	-	-	(10.7)	(7.7)	(6.7)	Updated business rates following latest rates review and central lists published
Recovered revenue for 2022/23	↓	-	-	(1.6)	-	-	Updated to reflect the latest recovered revenue figure WwU expects to collect for year 2022/23
Inflation	↑	-	-	18.2	9.8	(1.3)	Updated to reflect November 2022 OBR inflation predictions
Reported in the latest MOD186 (10 January 2023)		444.6	611.4	573.5	548.6	549.7	
Net Movement	↑	-	-	31.6	19.4	12.1	



Additional Comments

- **Variant Allowances**

There have been a number of updates to Price Control Deliverable, Uncertainty Mechanisms and Other Revenue Variant Allowances since September to reflect latest Special Conditions of the Licence and forecasts.

- **Shrinkage**

The updated shrinkage forecasts reflect a 4-week average price in December 2022. Volatility in wholesale gas prices remain and continue to will impact Allowed Revenue across the price control.

- **SoLR**

Ofgem published their final SoLR minded-to position in respect of true-up claims for SoLRs appointed in 2021 and decisions for SoLRs appointed in 2022 in December 2022. These figures have now been included within the Price Control Financial Model (PCFM).

- **WACC Allowance and RPE updates**

Ofgem provided updated WACC Allowance Model and RPE Workbooks which have been reflected in the PCFM published on 30 November 2022.

- **Inflation**

Allowed Revenue now reflects inflation rates as per the OBR November 2022 projections. The increases in actual and projected inflation results in a significant increase in Allowed Revenue across the price control. Although inflation projections are sourced from OBR projections (Ofgem uses OBR projections in setting Allowed Revenues in GD2), no assurance can be given that these projections are materially accurate projections of actual realised inflation nor that OBR projections are the best available evidence of eventual realised inflation.

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Thank you

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