



# DNCMF

Dec 2020 MOD0186

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# Key Updates for Dec 2020 MOD0186

The December MOD0186 provides an updated collected revenue forecast for RIIO-GD1 and the Allowed Revenue forecast for RIIO-GD2 based on Final Determinations from Ofgem:

- With a further three months of invoices, there is a small downward movement for the 2020/21 collected revenue forecast (-£0.2m).
- Final Determinations have now been released and set a baseline for allowed revenue for RIIO-2. We see price reductions across networks off-set in part by inflationary increases.
- There remains some uncertainty over the future revenues linked to inflation, NTS Exit costs, potential for networks to challenge to the CMA, and corrections for any errors noted as part of the licence consultation process.

# Summary Position

2020/21 COLLECTED REVENUE FORECAST		2021
COLLECTABLE REVENUE (PREVIOUS)		1,920.3
EAST OF ENGLAND (£M)	▲	0.1
LONDON (£M)	▲	0.3
NORTH WEST (£M)	▼	(0.7)
WEST MIDLANDS (£M)	▲	0.1
CADENT (£M)	▼	(0.2)
COLLECTABLE REVENUE (NEW)		1,920.1

- For 2020/21 we see a small decline in the collectable revenue forecast based on the invoices from the last three months.
- There remains a level of uncertainty due to the impacts of COVID-19 on demand levels, particularly on commodity revenue collection
- Also we await the impact of historical data corrections from Xoserve which will also have a small impact revenue this year.

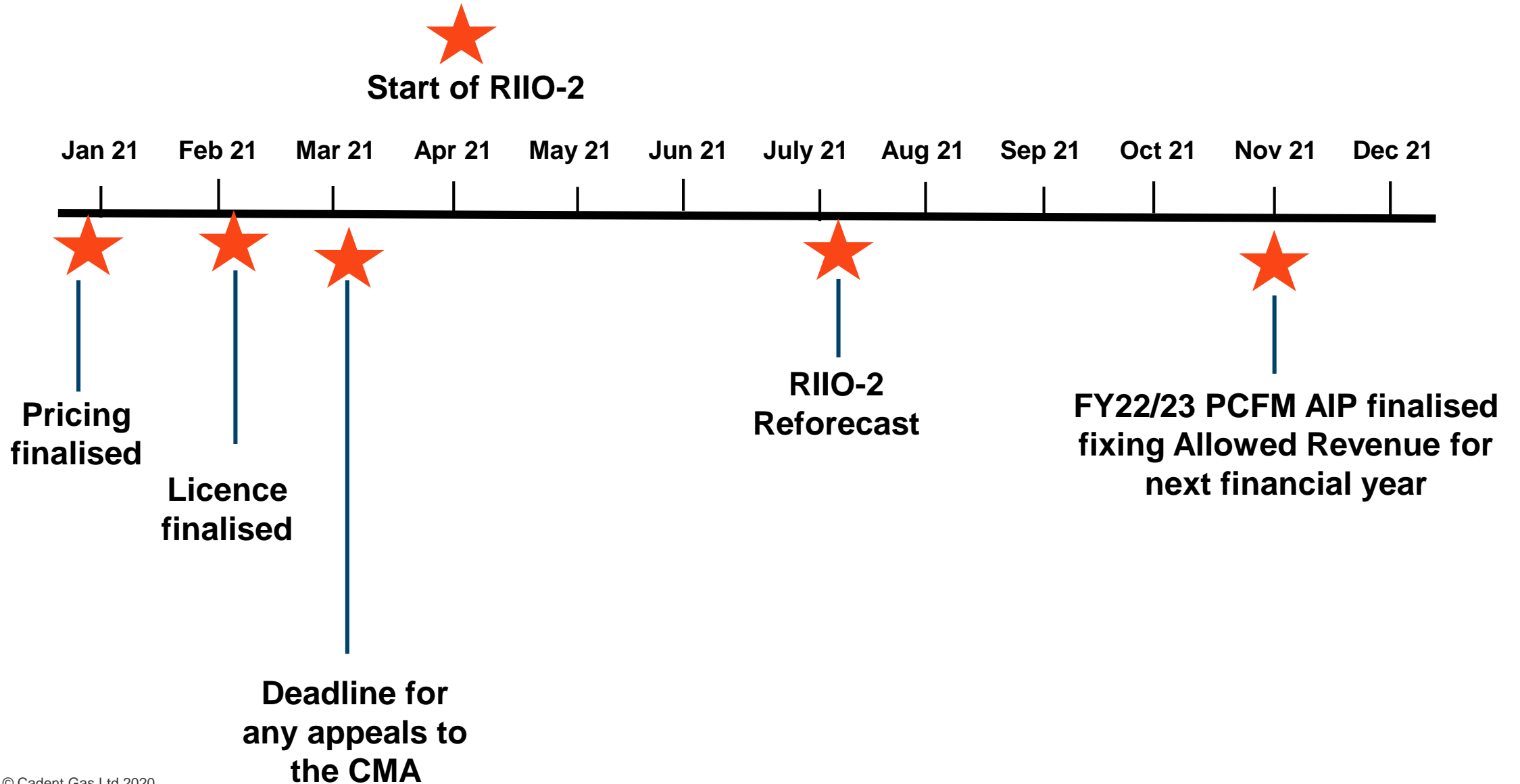
# Cadent RII0-GD2 PRICING FORECAST



# Introduction

- Timetable for next 12 months.
- Comments on potential sensitivities to the revenue projections and price changes.
- We present the RIIO-2 forecast that up-dates our September MOD0186 forecast for the outcome of Ofgem's Final Determinations.
- Full details are included in the MOD186 report with price changes provided in subsequent slides for reference.

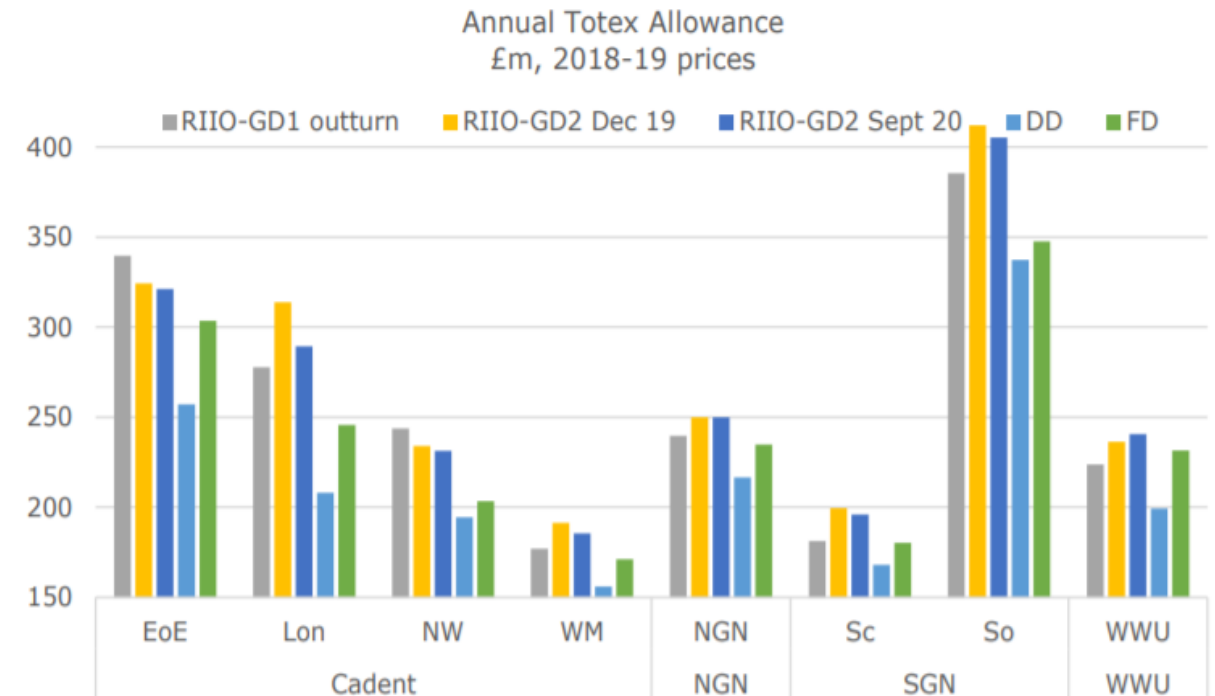
# Timeline for year ahead



# RIIO-GD2 Key Changes since Draft Determinations

- Ofgem has significantly reduced network totex allowances compared to business plans - reducing allowed revenues
- Ofgem allowed cost of capital is higher than Draft Determinations but lower than network assumptions and the PR19 provisional findings.
- Networks have been set stretching efficiency challenges (c. 1.2% p.a.) and a glidepath to 85<sup>th</sup> Percentile operating performance. These combine to drive reduction in revenues over RIIO-2

Figure 3: GDNs' Totex comparison



# Sensitivities to RIIO-2 allowed revenue forecasts

- **Inflation:** Ofgem are using OBR forecasts to determine revenue forecasts (rather than HMT consensus forecasts as in RIIO-1). CPIH inflation assumed to be lower than bank target of 2% over short to medium term.

Annual Inflation		31 Mar 2022	31 Mar 2023	31 Mar 2024	31 Mar 2025	31 Mar 2026
Parameter	Units					
Combined RPI-CPIH inflation (financial year average)	annual %	1.263%	1.594%	1.773%	1.931%	1.998%

- **NTS Exit Capacity:** pricing is based on NTS charge expectation prior to their Final Determinations. Recent under-recovery and Revenue Recovery Charge [RRC] gives increased concern that there will be variability in this charge which will likely impact future charges from GDNs relative to these projections.
- **RIIO-1 close out and other impacts:** any impact of close out on RIIO-2 RAV, Workload and charges has not been included in the projections.
- **Operating performance :** The forecast reflect a “performance neutral” position i.e reflects Cadent delivering at the Final Determination workload and the cost level expected by Ofgem.
- **Demand and net zero / Uncertainty Mechanisms:** There are no structural changes in the demand profile. The totex allowances reflect the baseline allowed by Ofgem and does not assume re-openers for spend on items such as investment in support of net zero targets.



# Price and revenue change: First Year of RII0-2

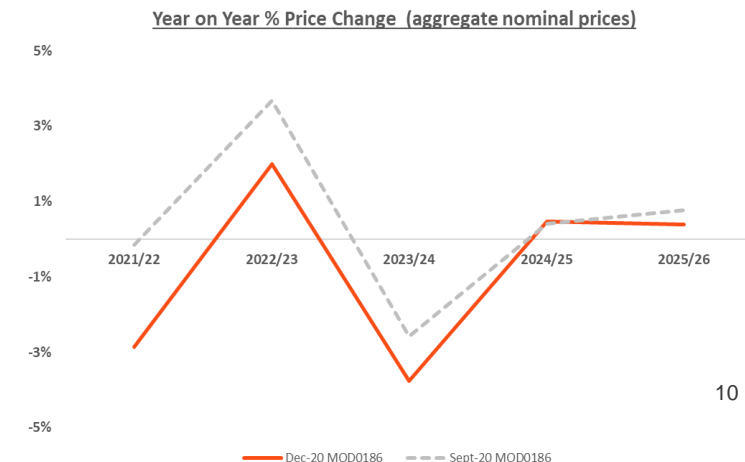
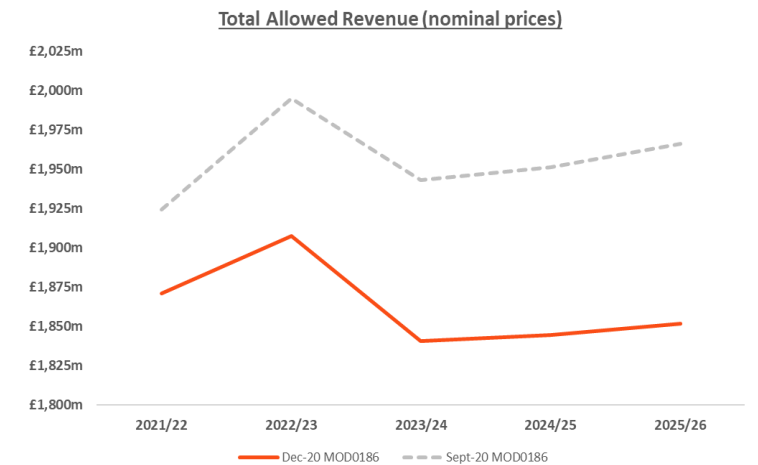
- Network price changes based on the Final Determinations as reflected within the pricing model being consulted on.
- North West and West Midlands see more significant price reductions due to a larger reduction in Allowed Revenues between 2020/21 and 2021/22.
- With London the key driver for the price increase is a change in load factors. In October 2020 Xoserve implemented a new calculation for load factors which is used to derive the SOQs (demand). This change was consulted upon and approved by the industry. It resulted in lower SOQs for London so prices increased to account for the lower charging base.

2021/22 Price Change	PRICE BASE	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	NOMINAL	-0.3%	-0.0%	-7.4%	-5.4%
ADJUSTMENT FOR PRIOR YEAR OVER / UNDER RECOVERY	NOMINAL	0.3%	0.3%	0.5%	0.4%
IMPACT OF CHANGE IN ANNUAL LOAD FACTORS	NOMINAL	0.6%	4.7%	0.2%	-1.0%
YEAR ON YEAR MOVEMENT IN AGGREGATE DEMAND	NOMINAL	-1.3%	-0.9%	-2.2%	-1.1%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-0.7%</b>	<b>4.1%</b>	<b>-9.0%</b>	<b>-7.1%</b>

# Analysis of revenue through RIIO-2

- The table below indicates the year on year price change showing the breakdown between ECN and LDZ and customer charges as per the December MOD0186.
- The graphs display the year on year movement in allowed revenue and price changes at a Cadent level.

EAST OF ENGLAND						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-3.0%	-2.2%	-3.3%	0.2%	0.9%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	113.1%	61.4%	-7.8%	1.4%	-3.2%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-0.7%</b>	<b>2.0%</b>	<b>-4.0%</b>	<b>0.6%</b>	<b>0.5%</b>
LONDON						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	3.5%	2.1%	-6.4%	0.5%	0.6%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	47.0%	47.4%	-1.5%	1.1%	-3.4%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>4.1%</b>	<b>4.3%</b>	<b>-6.3%</b>	<b>0.8%</b>	<b>0.3%</b>
NORTH WEST						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-6.8%	-0.6%	-4.7%	-0.5%	0.4%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-21.1%	1.7%	36.0%	1.4%	-3.1%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-9.0%</b>	<b>-0.4%</b>	<b>-2.4%</b>	<b>-0.1%</b>	<b>0.1%</b>
WEST MIDLANDS						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-6.9%	0.6%	-2.1%	0.1%	1.1%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	7.9%	23.8%	9.4%	1.1%	-3.5%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-7.1%</b>	<b>2.1%</b>	<b>-1.5%</b>	<b>0.5%</b>	<b>0.7%</b>



# Cadent Allowed Revenue

Year	PRICE BASE	Cadent				
		2021/22	2022/23	2023/24	2024/25	2025/26
<b>BASE REVENUE</b>						
BASE REVENUE (TOTEX & INCENTIVES)	2018/19	1,721.3	1,691.9	1,680.9	1,651.8	1,625.6
OTHER REVENUE INCENTIVES & ALLOWANCES	2018/19	15.1	12.6	12.6	12.6	12.6
TOTAL CALCULATED BASE REVENUE	2018/19	1,736.4	1,704.5	1,693.5	1,664.3	1,638.1
INFLATION TRUE UP	NOMINAL	89.4	116.4	147.7	180.1	213.5
<b>TOTAL CALCULATED BASE REVENUE</b>	<b>NOMINAL</b>	<b>1,825.8</b>	<b>1,820.8</b>	<b>1,841.2</b>	<b>1,844.4</b>	<b>1,851.7</b>
PASS THROUGH LEGACY ADJUSTMENT	NOMINAL	24.7	26.2	-	-	-
LEGACY MODt	NOMINAL	38.1	54.6	-	-	-
OTHER LEGACY ADJUSTMENT	NOMINAL	(16.4)	5.8	-	-	-
TOTAL LEGACY ADJUSTMENTS	NOMINAL	46.4	86.5	-	-	-
Kt (INC. LEGACY Kt) CORRECTON FACTOR	NOMINAL	(1.4)	-	-	-	-
<b>TOTAL ALLOWED REVENUE</b>	<b>NOMINAL</b>	<b>1,870.8</b>	<b>1,907.4</b>	<b>1,841.2</b>	<b>1,844.4</b>	<b>1,851.7</b>
<b>COLLECTABLE REVENUE</b>						
COLLECTABLE REVENUE FORECAST	NOMINAL	1,869.7	1,907.4	1,841.2	1,844.4	1,851.7
IN YEAR OVER/(UNDER) COLLECTION	NOMINAL	(1.1)	-	-	-	-
FORECAST PRICE CHANGE		(2.9%)	2.0%	(3.8%)	0.5%	0.4%

# Appendix

# East of England Allowed Revenue

Year	PRICE BASE	East Of England				
		2021/22	2022/23	2023/24	2024/25	2025/26
<b>BASE REVENUE</b>						
BASE REVENUE (TOTEX & INCENTIVES)	2018/19	585.0	573.5	569.1	559.9	551.6
OTHER REVENUE INCENTIVES & ALLOWANCES	2018/19	5.5	4.6	4.6	4.6	4.6
TOTAL CALCULATED BASE REVENUE	2018/19	590.5	578.1	573.7	564.6	556.3
INFLATION TRUE UP	NOMINAL	30.4	39.5	50.0	61.1	72.5
<b>TOTAL CALCULATED BASE REVENUE</b>	<b>NOMINAL</b>	<b>620.9</b>	<b>617.6</b>	<b>623.7</b>	<b>625.6</b>	<b>628.8</b>
PASS THROUGH LEGACY ADJUSTMENT	NOMINAL	2.1	(7.0)	-	-	-
LEGACY MODt	NOMINAL	19.4	24.5	-	-	-
OTHER LEGACY ADJUSTMENT	NOMINAL	(7.4)	12.8	-	-	-
TOTAL LEGACY ADJUSTMENTS	NOMINAL	14.1	30.3	-	-	-
Kt (INC. LEGACY Kt) CORRECTON FACTOR	NOMINAL	0.7	-	-	-	-
<b>TOTAL ALLOWED REVENUE</b>	<b>NOMINAL</b>	<b>635.7</b>	<b>647.9</b>	<b>623.7</b>	<b>625.6</b>	<b>628.8</b>
<b>COLLECTABLE REVENUE</b>						
COLLECTABLE REVENUE FORECAST	NOMINAL	635.4	647.9	623.7	625.6	628.8
IN YEAR OVER/(UNDER) COLLECTION	NOMINAL	(0.4)	-	-	-	-
FORECAST PRICE CHANGE		(0.7%)	2.0%	(3.7%)	0.3%	0.5%

# London Allowed Revenue

		London				
Year	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
<b>BASE REVENUE</b>						
BASE REVENUE (TOTEX & INCENTIVES)	2018/19	422.8	414.7	413.0	407.2	400.3
OTHER REVENUE INCENTIVES & ALLOWANCES	2018/19	3.2	2.6	2.6	2.6	2.6
TOTAL CALCULATED BASE REVENUE	2018/19	426.0	417.2	415.6	409.8	402.9
INFLATION TRUE UP	NOMINAL	21.9	28.5	36.2	44.3	52.5
<b>TOTAL CALCULATED BASE REVENUE</b>	<b>NOMINAL</b>	<b>448.0</b>	<b>445.7</b>	<b>451.8</b>	<b>454.1</b>	<b>455.4</b>
PASS THROUGH LEGACY ADJUSTMENT	NOMINAL	7.1	16.9	-	-	-
LEGACY MODt	NOMINAL	10.4	15.0	-	-	-
OTHER LEGACY ADJUSTMENT	NOMINAL	(3.5)	3.2	-	-	-
TOTAL LEGACY ADJUSTMENTS	NOMINAL	14.0	35.1	-	-	-
Kt (INC. LEGACY Kt) CORRECTON FACTOR	NOMINAL	(1.0)	-	-	-	-
<b>TOTAL ALLOWED REVENUE</b>	<b>NOMINAL</b>	<b>461.0</b>	<b>480.8</b>	<b>451.8</b>	<b>454.1</b>	<b>455.4</b>
<b>COLLECTABLE REVENUE</b>						
COLLECTABLE REVENUE FORECAST	NOMINAL	460.7	480.8	451.8	454.1	455.4
IN YEAR OVER/(UNDER) COLLECTION	NOMINAL	(0.3)	-	-	-	-
FORECAST PRICE CHANGE		4.1%	4.3%	(6.0%)	0.5%	0.3%

# North West Allowed Revenue

		North West				
Year	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
<b>BASE REVENUE</b>						
BASE REVENUE (TOTEX & INCENTIVES)	2018/19	401.0	395.7	392.4	383.5	376.3
OTHER REVENUE INCENTIVES & ALLOWANCES	2018/19	3.7	3.1	3.1	3.1	3.1
TOTAL CALCULATED BASE REVENUE	2018/19	404.7	398.7	395.5	386.6	379.4
INFLATION TRUE UP	NOMINAL	20.8	27.2	34.5	41.8	49.5
<b>TOTAL CALCULATED BASE REVENUE</b>	<b>NOMINAL</b>	<b>425.6</b>	<b>426.0</b>	<b>430.0</b>	<b>428.4</b>	<b>428.8</b>
PASS THROUGH LEGACY ADJUSTMENT	NOMINAL	9.9	10.4	-	-	-
LEGACY MODt	NOMINAL	7.4	10.6	-	-	-
OTHER LEGACY ADJUSTMENT	NOMINAL	(2.8)	(7.9)	-	-	-
TOTAL LEGACY ADJUSTMENTS	NOMINAL	14.5	13.1	-	-	-
Kt (INC. LEGACY Kt) CORRECTON FACTOR	NOMINAL	1.1	-	-	-	-
<b>TOTAL ALLOWED REVENUE</b>	<b>NOMINAL</b>	<b>441.2</b>	<b>439.0</b>	<b>430.0</b>	<b>428.4</b>	<b>428.8</b>
<b>COLLECTABLE REVENUE</b>						
COLLECTABLE REVENUE FORECAST	NOMINAL	440.9	439.0	430.0	428.4	428.8
IN YEAR OVER/(UNDER) COLLECTION	NOMINAL	(0.3)	-	-	-	-
FORECAST PRICE CHANGE		(9.0%)	(0.4%)	(2.1%)	(0.4%)	0.1%

# West Midlands Allowed Revenue

		West Midlands				
Year	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
<b>BASE REVENUE</b>						
BASE REVENUE (TOTEX & INCENTIVES)	2018/19	312.5	308.1	306.4	301.2	297.3
OTHER REVENUE INCENTIVES & ALLOWANCES	2018/19	2.7	2.2	2.2	2.2	2.2
TOTAL CALCULATED BASE REVENUE	2018/19	315.2	310.3	308.7	303.4	299.6
INFLATION TRUE UP	NOMINAL	16.2	21.2	26.9	32.8	39.1
<b>TOTAL CALCULATED BASE REVENUE</b>	<b>NOMINAL</b>	<b>331.4</b>	<b>331.5</b>	<b>335.6</b>	<b>336.2</b>	<b>338.6</b>
PASS THROUGH LEGACY ADJUSTMENT	NOMINAL	5.6	5.9	-	-	-
LEGACY MODt	NOMINAL	0.9	4.6	-	-	-
OTHER LEGACY ADJUSTMENT	NOMINAL	(2.8)	(2.3)	-	-	-
TOTAL LEGACY ADJUSTMENTS	NOMINAL	3.7	8.1	-	-	-
Kt (INC. LEGACY Kt) CORRECTON FACTOR	NOMINAL	(2.2)	-	-	-	-
<b>TOTAL ALLOWED REVENUE</b>	<b>NOMINAL</b>	<b>332.9</b>	<b>339.6</b>	<b>335.6</b>	<b>336.2</b>	<b>338.6</b>
<b>COLLECTABLE REVENUE</b>						
COLLECTABLE REVENUE FORECAST	NOMINAL	332.7	339.6	335.6	336.2	338.6
IN YEAR OVER/(UNDER) COLLECTION	NOMINAL	(0.2)	-	-	-	-
FORECAST PRICE CHANGE		(7.1%)	2.1%	(1.2%)	0.2%	0.7%



# Addendum slide; NTS RRC update

- National Grid published a revised Revenue Recovery Charge (RRC) on 31/12/2020. The RRC increases NTS costs from April-Sept 21 for next financial year
- This results in a little over a 1% increase in Allowed Revenue. There is also a small price change due to updated demand data from Xoserve

2021/22 Price Change	PRICE BASE	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	NOMINAL	-0.3%	0.0%	-7.4%	-5.4%
ADJUSTMENT FOR PRIOR YEAR OVER / UNDER RECOVERY	NOMINAL	0.3%	0.3%	0.5%	0.4%
IMPACT OF CHANGE IN ANNUAL LOAD FACTORS	NOMINAL	0.6%	4.7%	0.2%	-1.0%
YEAR ON YEAR MOVEMENT IN AGGREGATE DEMAND	NOMINAL	-1.3%	-0.9%	-2.2%	-1.1%
<b>TOTAL ARITHMETICAL PRICE CHANGE; MOD0186 as published</b>	<b>NOMINAL</b>	<b>-0.7%</b>	<b>4.1%</b>	<b>-9.0%</b>	<b>-7.1%</b>
NTS ADJUSTMENT; RRC IMPACT	NOMINAL	1.5%	1.1%	1.3%	1.2%
AGGREGATE DEMAND UPDATE; LATEST DEMAND PICTURE	NOMINAL	-0.2%	0.0%	-0.1%	-0.3%
<b>ADJUSTED TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>0.6%</b>	<b>5.2%</b>	<b>-7.9%</b>	<b>-6.2%</b>

# Addendum slide; NTS RRC update

- The table below indicates the year on year price change showing the breakdown between ECN and LDZ and customer charges inclusive of the NTS RRC update
- The graphs display the year on year movement in allowed revenue and price changes at a Cadent level again inclusive of the RRC update

EAST OF ENGLAND						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-3.3%	-2.2%	-3.3%	0.2%	0.9%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	161.7%	47.0%	-9.6%	1.4%	-3.2%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>0.6%</b>	<b>1.7%</b>	<b>-4.3%</b>	<b>0.6%</b>	<b>0.5%</b>

LONDON						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	3.6%	2.1%	-6.4%	0.5%	0.6%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	79.2%	35.6%	-4.1%	1.1%	-3.4%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>5.2%</b>	<b>4.1%</b>	<b>-6.5%</b>	<b>0.8%</b>	<b>0.3%</b>

LONDON						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-7.0%	-0.6%	-4.7%	-0.5%	0.4%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-3.9%	-1.6%	26.9%	1.4%	-3.1%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-7.9%</b>	<b>-0.6%</b>	<b>-2.6%</b>	<b>-0.1%</b>	<b>0.1%</b>

WEST MIDLANDS						
ARITHMETICAL PRICE CHANGE	PRICE BASE	2021/22	2022/23	2023/24	2024/25	2025/26
LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	-7.3%	0.6%	-2.1%	0.1%	1.1%
ECN CHARGES ARITHMETICAL PRICE CHANGE	NOMINAL	29.9%	17.3%	5.2%	1.1%	-3.5%
<b>TOTAL ARITHMETICAL PRICE CHANGE</b>	<b>NOMINAL</b>	<b>-6.2%</b>	<b>1.9%</b>	<b>-1.7%</b>	<b>0.5%</b>	<b>0.7%</b>

