



# March 2020 MOD0186

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24<sup>th</sup> March 2020



# Key Updates for March 2020 MOD0186

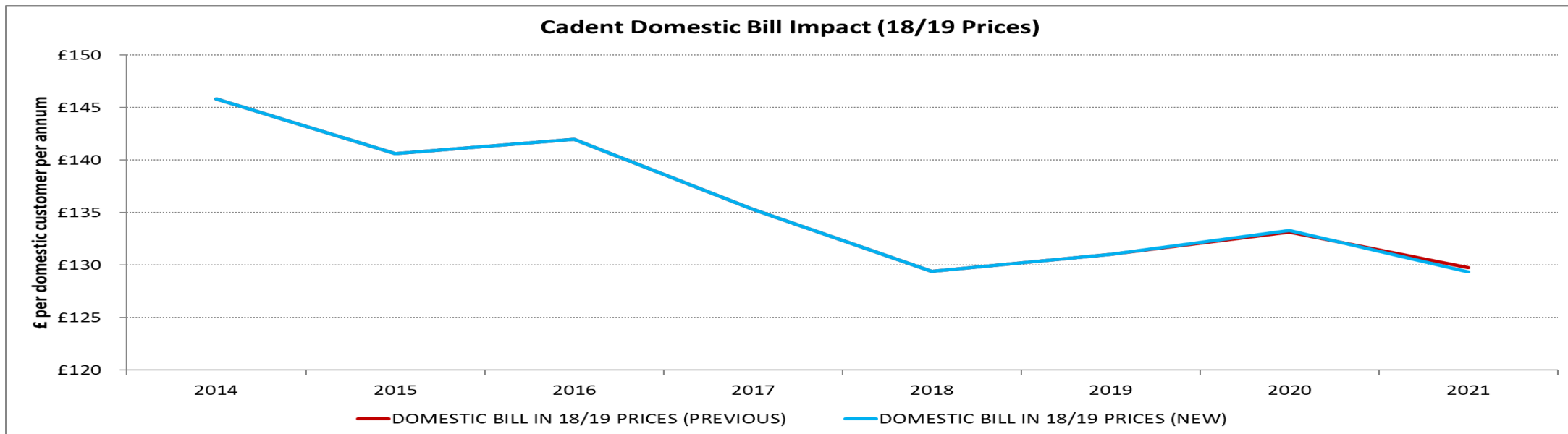
The March MOD0186 provides an updated collected revenue forecast for the final two years of RIIO-GD1 and the inclusion of the arithmetical price change for the RIIO-GD2 revenue forecast.

The key updates this time are:

- Inflation impacts including standard monthly RPI and the forecast for the UK economy. There is a significant reduction in HM Treasury's RPI forecast for 2020 and 2021 impacting collectable revenues in 2020/21
- The impact of the Supplier of Last Resort claims for Shell Energy and OVO Energy
- Collectable revenue positions reflecting our expectations for recovery in 2019/20
- The inclusion of the arithmetical price change for the RIIO-GD2 revenue forecast displaying the year on year forecast price change percentage.

# Summary Position

HEADLINE MOVEMENT SINCE LAST REPORT	CADENT							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,958.7	1,933.3
MOVEMENT ▼	-	-	-	-	-	-	(0.7)	(7.1)
COLLECTABLE REVENUE (NEW)	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,926.1
% MOVEMENT	-	-	-	-	-	-	(0.0%)	(0.4%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£145.83	£140.63	£141.97	£135.30	£129.43	£131.03	£133.15	£129.76
MOVEMENT ▼	-	-	-	-	-	-	+£0.16	(£0.41)
DOMESTIC BILL IN 18/19 PRICES (NEW)	£145.83	£140.63	£141.97	£135.30	£129.43	£131.03	£133.30	£129.35



# Collectable Revenue Trace

COLLECTABLE REVENUE TRACE		CADENT							
		2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,958.7	1,933.3
INFLATION	▼	-	-	-	-	-	-	-	(10.0)
SOLR FOR SHELL ENERGY AND OVO ENERGY	▲	-	-	-	-	-	-	-	3.1
COLLECTED REVENUE FORECAST	▼	-	-	-	-	-	-	(0.7)	(0.2)
COLLECTABLE REVENUE (NEW)		1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,926.1
% MOVEMENT		-	-	-	-	-	-	(0.0%)	(0.4%)

There are three changes from the December quarterly revenue forecast:

- Firstly the change in the inflation forecast impacting revenues in 2020/21
- Secondly the Supplier of Last Resort (SOLR) claims for Shell Energy and OVO Energy
- Finally a collectable revenue reforecast for 2019/20.

# Inflation

INFLATION		2019	2020	2021
EAST OF ENGLAND (£M)	▼	-	-	(3.2)
LONDON (£M)	▼	-	-	(2.5)
NORTH WEST (£M)	▼	-	-	(2.5)
WEST MIDLANDS (£M)	▼	-	-	(1.8)
<b>CADENT (£M)</b>	▼	-	-	<b>(10.0)</b>
EAST OF ENGLAND (%)	▼	-	-	(0.5%)
LONDON (%)	▼	-	-	(0.5%)
NORTH WEST (%)	▼	-	-	(0.5%)
WEST MIDLANDS (%)	▼	-	-	(0.5%)
<b>CADENT (%)</b>	▼	-	-	<b>(0.5%)</b>

HMT RPI FORECASTS	2019	2020	2021
FEB 2020 FORECAST (LATEST)		2.3%	2.6%
DEC 2019 FORECAST	2.6%	2.4%	2.7%
AUG 2019 FORECAST	2.7%	2.8%	3.0%
CHANGE (AUG 2019 TO FEB 2020)	(0.1%)	(0.5%)	(0.4%)

- In the Dec-19 MOD0186 the forecast for the UK economy was based on the HM Treasury publication in Aug-19 due Nov-19 being delayed as a result of the Election
- This update now includes both the December-19 and Feb-20 forecast
- The table shows the impact to collectable revenues as a result of the reduction in RPI forecast for 2020 and 2021
- We see the RPI forecast moving down 50 basis points in 2020 and 40 basis points in 2021 between Aug-19 and Feb-20.

# Supplier of Last Resort for Shell Energy and Ovo Energy

SOLR FOR SHELL ENERGY AND OVO ENERGY		2019	2020	2021
EAST OF ENGLAND (£M)	▲	-	-	1.0
LONDON (£M)	▲	-	-	0.7
NORTH WEST (£M)	▲	-	-	0.9
WEST MIDLANDS (£M)	▲	-	-	0.6
<b>CADENT (£M)</b>	<b>▲</b>	<b>-</b>	<b>-</b>	<b>3.1</b>
EAST OF ENGLAND (%)	▲	-	-	+0.2%
LONDON (%)	▲	-	-	+0.1%
NORTH WEST (%)	▲	-	-	+0.2%
WEST MIDLANDS (%)	▲	-	-	+0.2%
<b>CADENT (%)</b>	<b>▲</b>	<b>-</b>	<b>-</b>	<b>+0.2%</b>

- Ofgem confirmed the final Supplier of Last Resort values for Shell Energy and Ovo Energy in January for all the Distribution Networks
- The Cadent share across the four networks amounts to £3.1m which increases collectable revenues for 2020/21.

# Collected Revenue Forecast

COLLECTED REVENUE FORECAST		2019	2020	2021
EAST OF ENGLAND (£M)	▼	-	(0.1)	0.1
LONDON (£M)	▲	-	0.0	0.0
NORTH WEST (£M)	▼	-	0.1	(0.1)
WEST MIDLANDS (£M)	▼	-	(0.8)	(0.1)
<b>CADENT (£M)</b>	<b>▼</b>	<b>-</b>	<b>(0.7)</b>	<b>(0.2)</b>
EAST OF ENGLAND (%)	▼	-	(0.0%)	+0.0%
LONDON (%)	▲	-	+0.0%	(0.0%)
NORTH WEST (%)	▼	-	+0.0%	(0.0%)
WEST MIDLANDS (%)	▼	-	(0.2%)	(0.0%)
<b>CADENT (%)</b>	<b>▼</b>	<b>-</b>	<b>(0.0%)</b>	<b>(0.0%)</b>

- This forecast takes into consideration invoices from April 2019 through to Jan 2020 to inform our latest collected revenue view
- We are currently sign posting a £4.5m over recovery for 2019/20 at a Cadent level which equates to 0.23%.

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
2019-20 ALLOWED REVENUE (£M)	650.3	466.4	480.2	356.5	1,953.4
2019-20 COLLECTED REVENUE FORECAST (£M)	650.2	467.9	480.5	359.5	1,957.9
FORECAST UNDER RECOVERY (£M)	(0.1)	1.5	0.3	2.9	4.5
FORECAST UNDER RECOVERY %	(0.0%)	+0.3%	+0.1%	+0.8%	+0.23%

# Allowed Revenue Summary

ALLOWED REVENUE SUMMARY (ALL FIGURES £M NOMINAL)	CADENT							
	2014	2015	2016	2017	2018	2019	2020	2021
OPENING BASE REVENUE ALLOWANCE	1,793.6	1,800.2	1,867.1	1,835.5	1,890.8	1,950.5	2,005.6	2,033.9
PCFM ANNUAL ITERATION ADJUSTMENT	-	(13.4)	(28.3)	(23.9)	(78.4)	(86.5)	(126.9)	(162.5)
RPI TRUE UP	-	-	6.5	(25.8)	(41.6)	(7.7)	5.1	(1.6)
<b>BASE REVENUE</b>	<b>1,793.6</b>	<b>1,786.8</b>	<b>1,845.2</b>	<b>1,785.8</b>	<b>1,770.7</b>	<b>1,856.4</b>	<b>1,883.8</b>	<b>1,869.7</b>
PASS THROUGH	0.2	(0.1)	2.9	4.3	15.2	15.4	49.4	50.4
EXIT CAPACITY (INCENTIVE)	-	-	5.0	11.4	28.1	21.2	22.6	22.9
EXIT CAPACITY (COST PASS THROUGH)	-	-	(4.0)	(2.7)	(10.6)	(10.3)	(10.1)	(33.4)
SHRINKAGE INCENTIVE	-	-	2.0	1.6	1.4	1.1	1.4	2.3
SHRINKAGE COST PASS THROUGH	-	-	(7.1)	(17.3)	(23.0)	(12.5)	(9.5)	(5.2)
BROAD MEASURE OF CUSTOMER SATISFACTION	-	-	5.8	4.6	7.9	8.4	8.5	10.2
ENVIRONMENTAL EMISSIONS INCENTIVE	-	-	6.5	7.1	8.2	6.7	7.4	10.4
DISCRETIONARY REWARD SCHEME	0.9	0.8	-	0.5	-	-	0.6	-
NETWORK INNOVATION ALLOWANCE	2.5	6.9	8.6	6.8	6.6	4.4	5.4	8.2
UNDER / OVER COLLECTION B/F	6.1	-	(20.7)	0.9	(9.8)	(19.4)	(5.9)	(8.5)
<b>MAXIMUM ALLOWED REVENUE</b>	<b>1,803.4</b>	<b>1,794.4</b>	<b>1,844.1</b>	<b>1,803.0</b>	<b>1,794.8</b>	<b>1,871.4</b>	<b>1,953.4</b>	<b>1,927.0</b>
COLLECTABLE REVENUE FORECAST	1,823.3	1,793.5	1,853.6	1,821.8	1,800.5	1,879.5	1,957.9	1,926.1
UNDER / OVER COLLECTION C/F	19.9	(0.9)	9.5	18.7	5.7	8.1	4.5	(0.9)



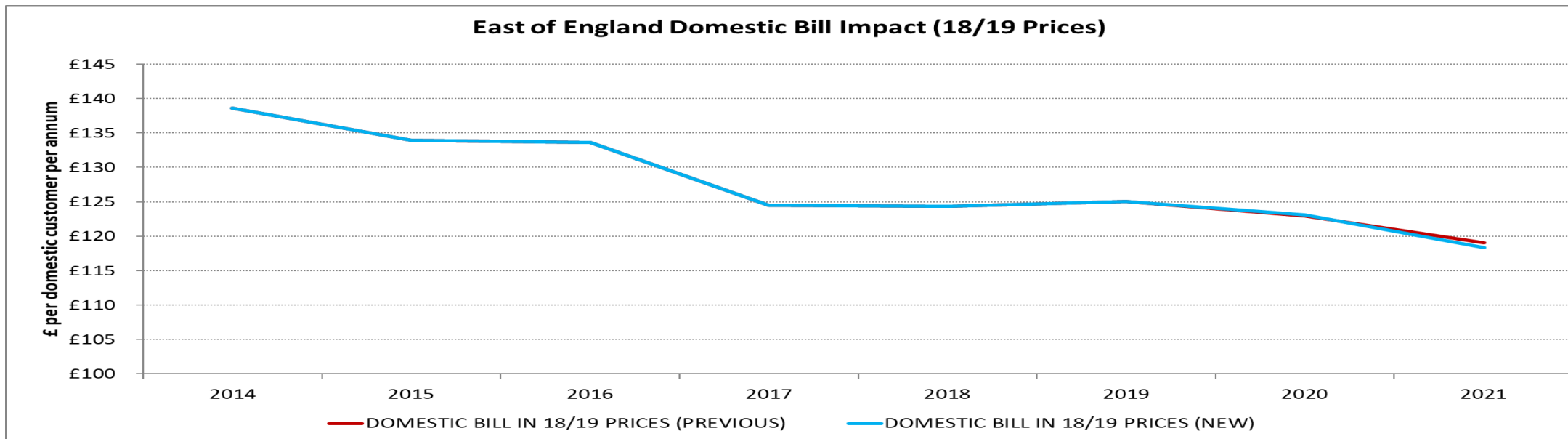
# Anticipated updates in June 2020

The June report will include updates for:

- Inflation
- Final collected revenue positions for 2019/20
- Refreshed Exit Capacity costs dependent on a decision from Ofgem on 0678/A.

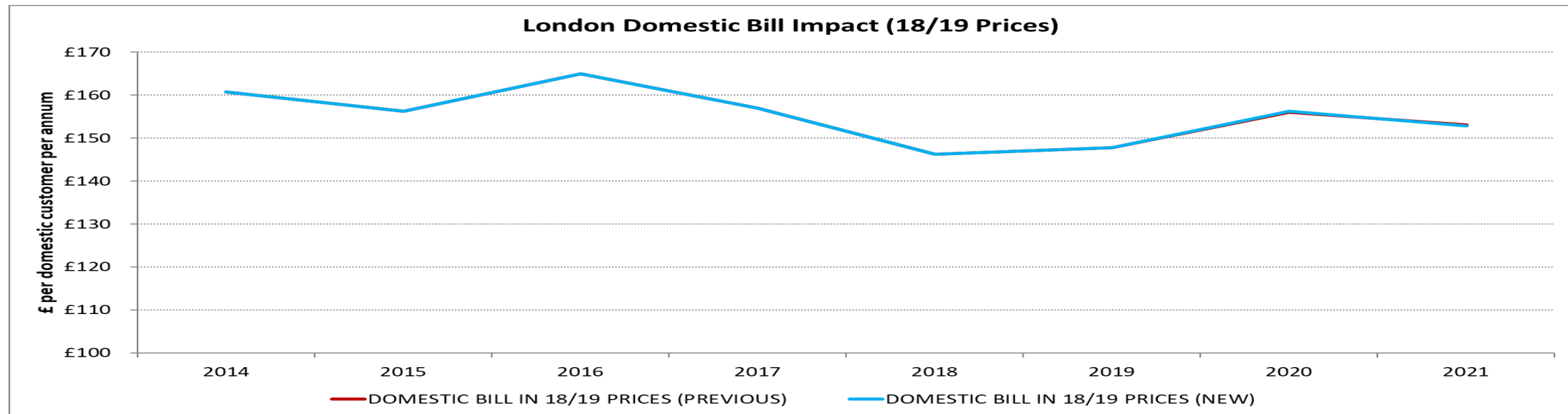
# Summary Position: East of England

HEADLINE MOVEMENT SINCE LAST REPORT	EAST OF ENGLAND							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	621.2	609.5	623.0	601.2	619.5	645.9	650.2	639.5
MOVEMENT ▼	-	-	-	-	-	-	(0.1)	(2.2)
COLLECTABLE REVENUE (NEW)	621.2	609.5	623.0	601.2	619.5	645.9	650.2	637.3
% MOVEMENT	-	-	-	-	-	-	(0.0%)	(0.3%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£138.61	£133.92	£133.59	£124.48	£124.33	£125.04	£122.92	£119.05
MOVEMENT ▼	-	-	-	-	-	-	+£0.14	(£0.74)
DOMESTIC BILL IN 18/19 PRICES (NEW)	£138.61	£133.92	£133.59	£124.48	£124.33	£125.04	£123.07	£118.32



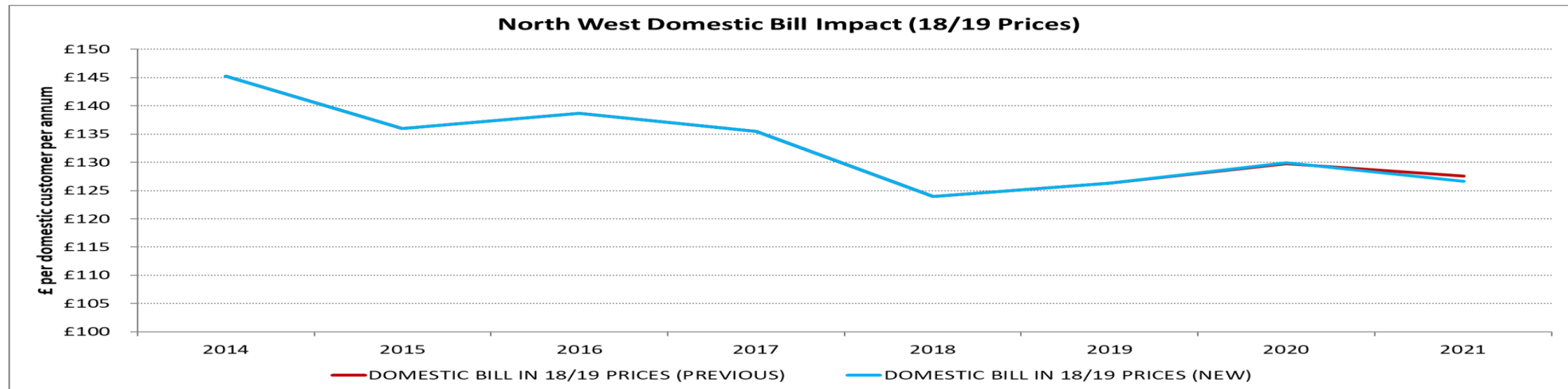
# Summary Position: London

HEADLINE MOVEMENT SINCE LAST REPORT	LONDON							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	419.8	416.8	445.8	436.4	418.8	434.7	467.8	462.6
MOVEMENT ▼	-	-	-	-	-	-	0.0	(1.9)
COLLECTABLE REVENUE (NEW)	419.8	416.8	445.8	436.4	418.8	434.7	467.9	460.7
% MOVEMENT	-	-	-	-	-	-	+0.0%	(0.4%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£160.75	£156.24	£165.03	£156.99	£146.28	£147.74	£156.05	£153.12
MOVEMENT ▼	-	-	-	-	-	-	+£0.18	(£0.28)
DOMESTIC BILL IN 18/19 PRICES (NEW)	£160.75	£156.24	£165.03	£156.99	£146.28	£147.74	£156.23	£152.84



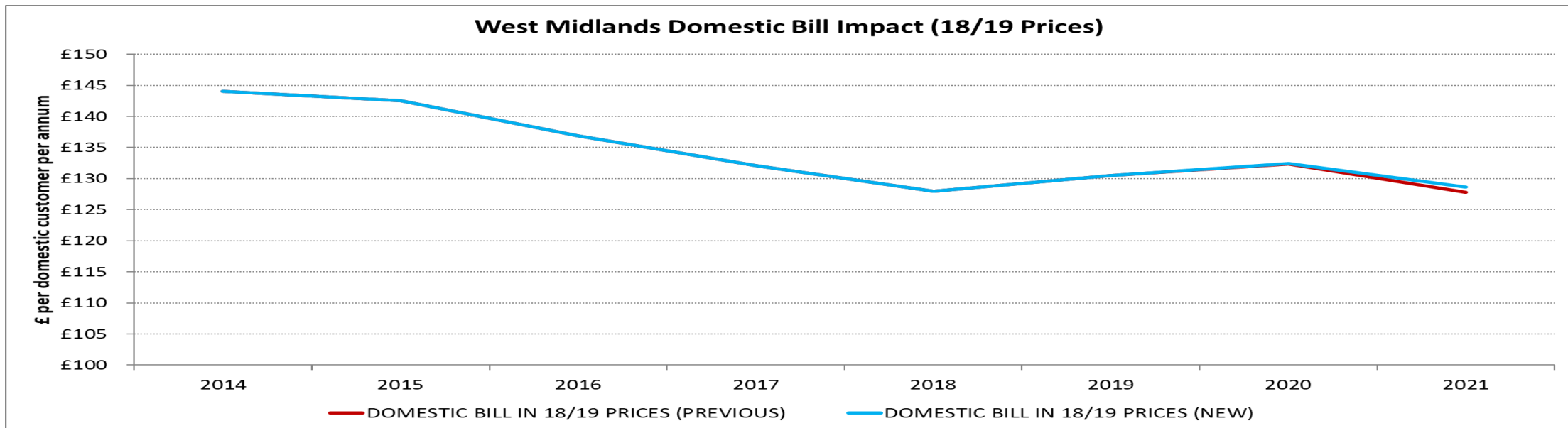
# Summary Position: North West

HEADLINE MOVEMENT SINCE LAST REPORT	NORTH WEST							
	2014	2015	2016	2017	2018	2019	2020	2021
COLLECTABLE REVENUE (PREVIOUS)	453.2	434.8	460.2	460.4	434.6	453.8	480.3	478.1
MOVEMENT ▼	-	-	-	-	-	-	0.1	(1.8)
COLLECTABLE REVENUE (NEW)	453.2	434.8	460.2	460.4	434.6	453.8	480.5	476.3
% MOVEMENT	-	-	-	-	-	-	+0.0%	(0.4%)
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£145.24	£136.02	£138.65	£135.44	£123.93	£126.32	£129.77	£127.55
MOVEMENT ▼	-	-	-	-	-	-	+£0.15	(£0.91)
DOMESTIC BILL IN 18/19 PRICES (NEW)	£145.24	£136.02	£138.65	£135.44	£123.93	£126.32	£129.92	£126.63



# Summary Position: West Midlands

HEADLINE MOVEMENT SINCE LAST REPORT	WEST MIDLANDS								
	2014	2015	2016	2017	2018	2019	2020	2021	
COLLECTABLE REVENUE (PREVIOUS)	329.1	332.3	324.6	323.8	327.6	345.0	360.3	353.0	
MOVEMENT ▼	-	-	-	-	-	-	(0.8)	(1.3)	
COLLECTABLE REVENUE (NEW)	329.1	332.3	324.6	323.8	327.6	345.0	359.5	351.8	
% MOVEMENT	-	-	-	-	-	-	(0.2%)	(0.4%)	
DOMESTIC BILL IN 18/19 PRICES (PREVIOUS)	£144.00	£142.53	£136.90	£132.12	£127.93	£130.46	£132.30	£127.83	
MOVEMENT ▲	-	-	-	-	-	-	+£0.16	+£0.83	
DOMESTIC BILL IN 18/19 PRICES (NEW)	£144.00	£142.53	£136.90	£132.12	£127.93	£130.46	£132.46	£128.66	



# RIIO GD-2 Forecast Arithmetical Price Change

ARITHMETICAL PRICE CHANGE (BASED ON NOMINAL PRICES)					
<b>ECN CHARGES ARITHMETICAL PRICE CHANGE</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
EAST OF ENGLAND	5.7%	11.5%	12.2%	-2.1%	-1.8%
LONDON	-6.3%	23.1%	18.1%	-1.4%	-0.8%
NORTH WEST	2.3%	11.4%	5.6%	-2.0%	-1.5%
WEST MIDLANDS	-1.9%	13.2%	5.4%	-2.0%	-1.6%
<b>LDZ &amp; CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
EAST OF ENGLAND	-2.1%	0.1%	-3.0%	-0.3%	0.3%
LONDON	0.6%	7.8%	-5.7%	1.5%	2.0%
NORTH WEST	-1.6%	3.0%	-4.8%	-0.8%	-0.3%
WEST MIDLANDS	-1.6%	-1.6%	-1.6%	-1.6%	-1.6%
<b>TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
EAST OF ENGLAND	-1.9%	0.5%	-2.5%	-0.4%	0.3%
LONDON	0.3%	8.3%	-4.9%	1.4%	1.9%
NORTH WEST	-1.6%	3.0%	-4.8%	-0.8%	-0.3%
WEST MIDLANDS	-3.5%	3.0%	-1.3%	-0.1%	1.5%

- Following on from the December MOD0186, there was a request to show the arithmetical price change by Distribution network
- The above table outlines the forecast arithmetical price change for the ECN, LDZ and customer charge elements along with the total distribution charge. The price change is based on Ofgem's latest working assumptions on the RIIO2 forecast and the December business plan submission which is subject to agreement through the RIIO-GD2 price control review process with Ofgem
- This does not include the impact of Mod0678/A which is awaiting a final decision from Ofgem.