



DNCMF

Sept 2020 MOD0186

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Cadent
Your Gas Network

Key Updates for Sept 2020 MOD0186

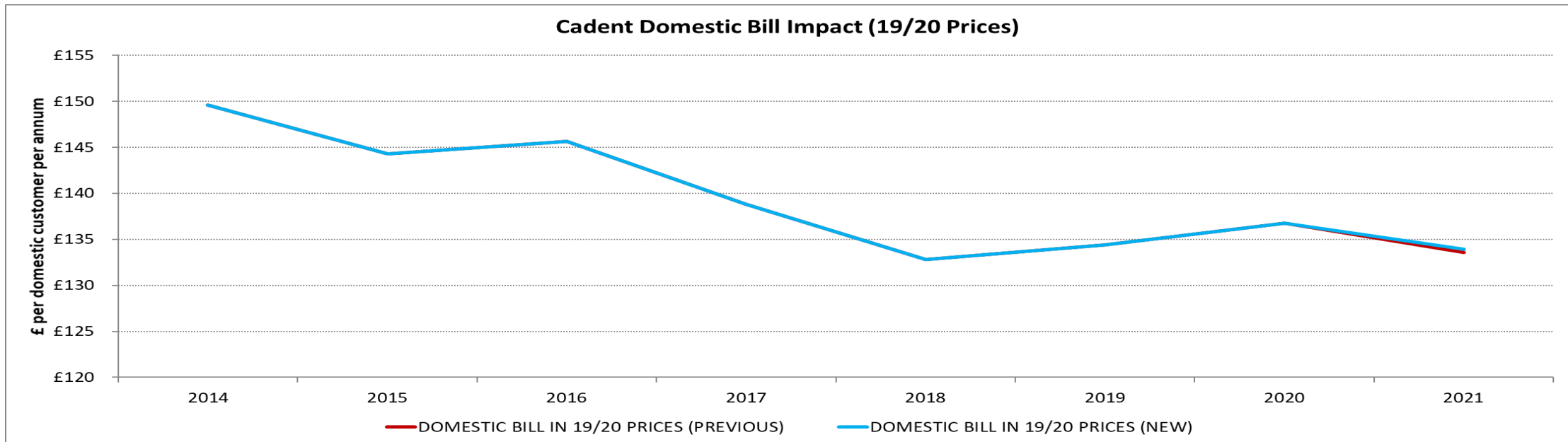
The September MOD0186 displays an updated collected revenue forecast for RIIO-GD1

- There is an refreshed revenue forecast for 2020/21 based on a further three months of invoices. The results of Xoserve's data cleansing are not yet available and this may impact collections this financial year.
- It is assumed all cash impacted by the liquidity relief scheme (MOD0726) will be recovered this financial year

An updated forecast is provided for RIIO-GD2. Our Sept-20 MOD0186 forecast, an up-date subsequent to Ofgem's Draft Determination for RIIO-GD2.

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 | 1,961.0 | 1,921.0 |
| MOVEMENT ▼ | - | - | - | - | - | - | (0.5) | (0.7) |
| COLLECTABLE REVENUE (NEW) | 1,823.3 | 1,793.5 | 1,853.6 | 1,821.8 | 1,800.5 | 1,879.5 | 1,960.5 | 1,920.3 |
| % MOVEMENT | - | - | - | - | - | - | (0.0%) | (0.0%) |
| DOMESTIC BILL IN 19/20 PRICES (PREVIOUS) | £149.61 | £144.27 | £145.64 | £138.80 | £132.78 | £134.42 | £136.75 | £133.60 |
| MOVEMENT ▲ | - | - | - | - | - | - | - | +£0.30 |
| DOMESTIC BILL IN 19/20 PRICES (NEW) | £149.61 | £144.27 | £145.64 | £138.80 | £132.78 | £134.42 | £136.75 | £133.90 |



2020/21 Collected Revenue Forecast

| 2020/21 COLLECTED REVENUE FORECAST | | 2021 |
|------------------------------------|----------|---------------|
| EAST OF ENGLAND (£M) | ▼ | (0.3) |
| LONDON (£M) | ▼ | (0.2) |
| NORTH WEST (£M) | ▼ | (0.0) |
| WEST MIDLANDS (£M) | ▼ | (0.3) |
| CADENT (£M) | ▼ | (0.7) |
| EAST OF ENGLAND (%) | ▼ | (0.0%) |
| LONDON (%) | ▼ | (0.0%) |
| NORTH WEST (%) | ▼ | (0.0%) |
| WEST MIDLANDS (%) | ▼ | (0.1%) |
| CADENT (%) | ▼ | (0.0%) |

- This is the updated revenue forecast for 2020/21
- It take into consideration invoices from May through to July
- The downward movement was predominantly driven my lower commodity income in May and June due to lower network usage.

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) |
| BASE REVENUE | 1,793.6 | 1,786.8 | 1,845.2 | 1,785.8 | 1,770.7 | 1,856.4 | 1,883.8 | 1,869.7 |
| PASS THROUGH | 0.2 | (0.1) | 2.9 | 4.3 | 15.2 | 15.4 | 47.9 | 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 | 2.4 |
| 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 | 10.6 |
| 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 | 5.5 | 8.2 |
| UNDER / OVER COLLECTION B/F | 6.1 | - | (20.7) | 0.9 | (9.8) | (19.4) | (5.9) | (8.5) |
| MAXIMUM ALLOWED REVENUE | 1,803.4 | 1,794.4 | 1,844.1 | 1,803.0 | 1,794.8 | 1,871.4 | 1,952.0 | 1,927.3 |
| COLLECTABLE REVENUE FORECAST | 1,823.3 | 1,793.5 | 1,853.6 | 1,821.8 | 1,800.5 | 1,879.5 | 1,960.5 | 1,920.3 |
| UNDER / OVER COLLECTION C/F | 19.9 | (0.9) | 9.5 | 18.7 | 5.7 | 8.1 | 8.5 | (7.1) |

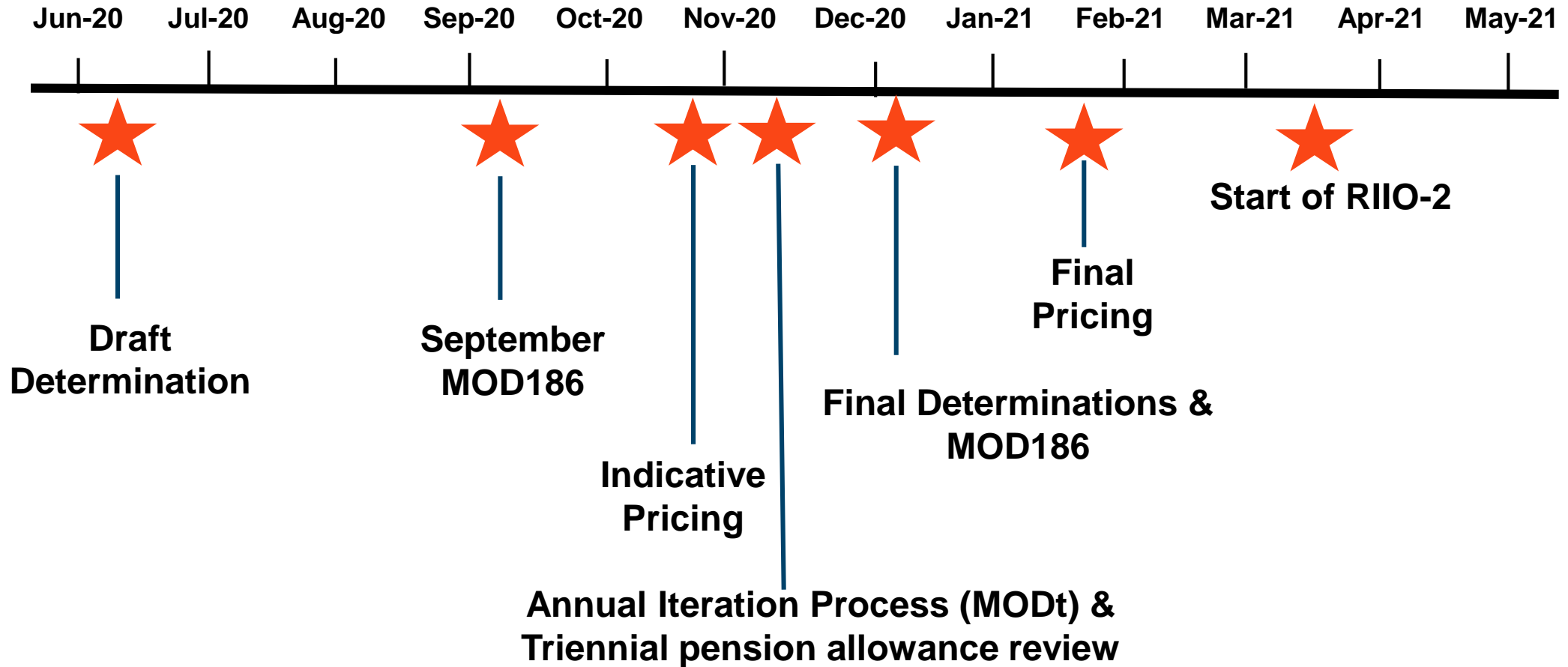
Cadent RII0-GD2 REVENUE FORECAST



Introduction

- We present the RIIO-2 forecast that up-dates our June MOD0186 forecast for certain aspects of Ofgem's Draft Determination. However, due to the magnitude of errors in Ofgem's approach to setting cost allowances and their impact on revenue forecasting, we continue to assume our December 2019 Business Plan cost forecasts.
- We provide a timetable from now until the start of RIIO-2; and detail when more information will become available over the coming months.
- Further details of changes in assumptions from our June MOD186 report to this September's MOD186 report are provided.
- It should also be noted that outturn inflation, COVID-19 and Ofgem's approach to allowance setting (including in relation to cost of capital and Net Zero) will have a significant impact on the revenue forecast.
- Full details are included in the MOD186 report with price changes provided in subsequent slides for reference.

RIO-GD2 Timeline



Cadent RIIO-GD2 Key Financial Parameters

| KEY FINANCIAL PARAMETERS: AVERAGE RIIO-2 | Jun Mod186 | Sept Mod186 | Variance |
|---|------------|-------------|----------|
| INFLATION INDEX (2018/19 TO OUTTURN) | 1.097 | 1.105 | 0.008 |
| TOTEX in 18/19 prices (excl. UMs) | £5,317m | £5,317m | - |
| COST OF EQUITY + OUTPERFORMANCE | 4.80% | 4.20% | (0.6%) |
| COST OF DEBT | 1.93% | 1.74% | (0.19%) |
| GEARING | 60.00% | 60.00% | - |
| CORPORATION TAX RATE | 19.00% | 19.00% | - |
| OPEX / CAPEX CAPITALISATION RATE (NETWORK SPECIFIC) | 27.41% | 27.41% | - |
| REPEX CAPITALISATION RATE | 100.00% | 100.00% | - |

- We have up-dated our revenue forecast for the latest inflation forecast from HMT and the cost of capital assessment included in Ofgem's Draft Determinations.
- We do not agree with Ofgem's assessment of cost of capital including the outperformance wedge; but align to Ofgem's DD assessment.

Cadent RIIO-GD2 Base Revenue: Key Assumptions

| BASE REVENUE COMPONENT | KEY ASSUMPTION/BASIS OF FORECAST |
|--|--|
| REGULATORY DEPRECIATION (PRE RIIO-GD2 RAV) | NO CHANGE TO ASSET LIFE (45 YEARS) ASSUMPTION OR DEPRECIATION METHODOLOGY (SUM OF DIGITS) |
| BUSINESS RATES | ASSUMED BASED ON CURRENT CHARGES DUE TO DELAY IN RATES REVALUATION. |
| EXIT CAPACITY | BASED ON UP-DATED POSTAGE STAMP PRICING FROM RECENT UNC MODIFICATION |
| SHRINKAGE | BASED ON CURRENT SHRINKAGE AND LEAKAGE ESTIMATION METHODOLOGY |
| ESTABLISHED PENSION DEFICIT FUNDING | ASSUMES CESSATION OF ESTABLISHED PENSION DEFICIT FUNDING REQUIREMENTS BY 2022/23. THIS WILL BE UP-DATED IN NOVEMBER WHEN THE NEXT PENSIONS TRIENNIAL SUBMISSION IS AGREED WITH OFGEM |
| TOTEX | BASED ON OUR DECEMBER BUSINESS PLAN WITH NO ALLOWANCE FOR UNCERTAIN COSTS SUCH AS THOSE RELATED TO NET ZERO |
| DEBT FINANCING | OFGEM COST OF DEBT ASSUMPTIONS FROM DRAFT DETERMINATIONS |
| EQUITY FINANCING | OFGEM COST OF EQUITY ASSUMPTIONS FROM DRAFT DETERMINATIONS |
| OUTPERFORMANCE | OFGEM ASSUMPTION OF 25 BPS OUTPERFORMANCE |
| ADJUSTMENT FROM PREVIOUS PRICE CONTROL | INDICATION OF RIIO-1 CLOSE OUT COSTS AND MODt |
| TAX ALLOWANCE | ASSUMES CONTINUATION OF RIIO-GD1 TAX ALLOWANCE CALCULATION METHODOLOGY |

Movements in revenue versus June MOD186 Report

All in £m Nominal Prices for all networks unless stated

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|--|--------------|--------------|--------------|--------------|--------------|
| June-20 Mod0186 Allowed Revenue | 1,974 | 2,036 | 1,979 | 1,992 | 2,011 |
| Ofgem's Draft Determination Cost of Capital assumptions (Note A) | (32) | (40) | (49) | (56) | (63) |
| Change in Inflation forecast (Note B) & other items including RIIO-1 performance | (18) | (1) | 13 | 15 | 18 |
| Sept-20 Mod0186 Allowed Revenue | 1,924 | 1,995 | 1,943 | 1,951 | 1,966 |
| <i>Delta (June to September)</i> | <i>(50)</i> | <i>(41)</i> | <i>(36)</i> | <i>(41)</i> | <i>(45)</i> |

Note A: https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_cadent_annex_0.pdf

Note B: <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-august-2020>

- The draft determinations included lower cost of capital allowances than the June Mod186
- HMT forecast show a slight increase to inflation. Other variances relate to timing items from RIIO-1 flowing through into RIIO-2 and remain uncertain until close out completed and Ofgem modelling and assurance complete in November.

Analysis of revenue through RIIO-2

- There remains significant uncertainty over the revenue forecast pending Final Determinations and RIIO-1 Close out.
- Our assessment shows for Cadent overall revenues will be largely consistent with FY20/21, however, as noted, there are significant judgements included around how Ofgem will set final cost allowances that will impact this forecast.
- The table below indicates the year on year price change as per the September MOD186 report.

ARITHMETIC PRICE CHANGE BY NETWORK; SEP-20 MOD0186 (NOMINAL PRICES)

| ECN CHARGES ARITHMETICAL PRICE CHANGE | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|--|---------|---------|---------|---------|---------|
| EAST OF ENGLAND | 145.5% | 5.1% | 21.6% | 0.7% | -3.9% |
| LONDON | 42.0% | 38.9% | 5.2% | 1.1% | -3.5% |
| NORTH WEST | -21.8% | 3.9% | 33.9% | 0.8% | -3.9% |
| WEST MIDLANDS | 8.9% | 22.8% | 9.0% | 0.5% | -4.2% |
| LDZ & CUSTOMER CHARGES ARITHMETICAL PRICE CHANGE | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| EAST OF ENGLAND | -2.7% | 2.6% | -6.2% | -0.6% | 0.0% |
| LONDON | -0.1% | 0.8% | -1.7% | 0.9% | 1.5% |
| NORTH WEST | -2.1% | 2.6% | -6.5% | -1.0% | -0.4% |
| WEST MIDLANDS | -4.5% | 3.1% | -2.9% | -0.4% | 1.3% |
| TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| EAST OF ENGLAND | 1.7% | 3.0% | -4.6% | -0.6% | -0.4% |
| LONDON | 1.0% | 2.5% | -1.4% | 0.8% | 1.0% |
| NORTH WEST | -3.7% | 2.6% | -4.1% | -0.9% | -0.8% |
| WEST MIDLANDS | -3.9% | 4.3% | -2.1% | -0.4% | 0.8% |

