

NGN Mod186 Pricing Statement

Movement from June 2023 to September 2023

**we are
the network**

Summary of key updates June 23 to September 23:

- **AIP updates**

This update includes finalised Regulatory Reporting Pack (RRP) entries for 22/23 actual data and also our latest forecast for the remaining years of RIIO-GD2. All areas are updated from Totex, Incentives, Innovation, non controllable costs, tax entries.

We have pulled out the largest amounts below and NGN GD2 yr 2 report can be found on our website <https://www.northerngasnetworks.co.uk/document-library/>

- **VCMA: + £15.9m**

Ofgem has amended some of the allowances, re-purposing the fuel poor allowance but also increasing amounts allocated to supporting vulnerable customers.

- **Pension: + 9.5m**

NGN will be further de-risking the defined benefit pension scheme for consumers, by undertaking a further insurance buy in of the pension scheme.

- **Inflation: + £6.8m**

Inflation	21/22	22/23	23/24	24/25	25/26
CPIH Sept 23	3.674%	8.774%	5.354%	0.697%	0.251%
CPIH Jun 23	3.674%	8.774%	4.749%	0.730%	0.251%
CPIH Mar 23	3.674%	8.765%	5.198%	0.321%	-0.451%

There has been the inclusion of the actual inflation measures for March to June 2023.

- **Shrinkage: + £4.6m**

Our current forecasts include the following Heren prices:

Year	Sep-23 £/therm	Jun-23 £/therm	Mar 23 £/therm	Dec 22 £/therm
22/23	1.75	1.75	2.19	2.37
23/24	1.08	0.89	3.03	3.58
24/25	1.42	1.15	2.24	2.49
25/26	1.17	1.04	1.59	1.17

We have started to see gas prices start to increase again which is typical of this point in the year.

Mod 186 - June 2023 - Sept 2023

21/22 22/23 23/24 24/25 25/26 GD2

Mod 186 : June 2023	Calculated revenue	430.7	566.2	571.8	525.2	544.5	
	AIP adjustment term	-	23.3	(7.7)	(45.7)	-	
	Adjusted revenue	430.7	589.6	564.1	479.5	544.5	2,608
	Legacy Allowed Revenue	(13.8)	10.8	0.1	0.7	0.4	
	K Correction Factor	0.2	0.4	1.4	1.5	-	
	Allowed Revenue	417.2	600.7	565.6	481.7	545.0	2,610
	Recovered Revenue	421.2	596.5	564.2	480.2	545.0	
	Inflation %	4.5%	8.8%	4.7%	0.7%	0.3%	
	SOQ % Change	1.4%	(0.1)%	(7.4)%	-	-	
	LDZ Price Change	(13.7)%	15.4%	20.4%	(9.4)%	9.0%	
Mod 186 : Latest Position	Calculated revenue	430.7	566.2	571.8	546.1	555.9	
	AIP adjustment term	-	23.3	(7.7)	(39.0)	-	
	Adjusted revenue	430.7	589.6	564.1	507.1	555.9	2,647
	Legacy Allowed Revenue	(13.8)	10.8	0.1	0.7	0.4	
	K Correction Factor	0.2	0.4	4.4	4.5	-	
	Allowed Revenue	417.2	600.7	568.6	512.3	556.3	2,655
	Recovered Revenue	421.2	596.5	564.3	512.3	556.3	
	Inflation %	4.5%	8.8%	5.4%	0.7%	0.3%	
	SOQ % Change	1.4%	(0.1)%	(7.4)%	-	-	
	LDZ Price Change	(13.7)%	15.4%	20.4%	(2.8)%	4.1%	
Difference	Calculated revenue	-	-	-	20.8	11.4	
	AIP adjustment term	-	-	-	6.7	-	
	Adjusted revenue	-	-	-	27.6	11.4	39
	Legacy Allowed Revenue	-	-	0.0	0.0	0.0	
	K Correction Factor	-	0.0	3.0	3.0	-	
	Allowed Revenue	-	0.0	3.0	30.6	11.4	45.0
	Recovered Revenue	-	-	0.1	32.1	11.4	
	Inflation %	-	-	0.6%	(0.0)%	(0.0)%	
	SOQ % Change	-	-	-	-	-	
	LDZ Price Change	-	-	-	6.5%	(4.9)%	

Movements from June – September 2023

Breakdown of movements		23/24					24/25		GD2
		Total	Adj impact from 21/22	Adj impact from 22/23	Adj impact from 23/24	Reforecast 24/25	Total	Reforecast 24/26	
Adjusted Revenue movements	VCMA		-	(0.9)	3.2	7.1	9.3	6.6	15.9
	Pension		(0.0)	(0.2)	(0.2)	7.3	6.8	2.8	9.5
	Inflation		-	-	1.8	2.5	4.3	2.5	6.8
	Under collection	3.0			-	3.0	3.0	-	6.0
	Shrinkage		(0.0)	(0.8)	1.8	2.4	3.5	1.1	4.6
	Totex changes		0.4	(1.4)	1.9	0.7	1.6	2.5	4.2
	Tax		0.1	0.7	1.6	1.2	3.7	(0.4)	3.2
	Xoserve costs		(0.0)	(1.3)	0.8	0.9	0.4	1.2	1.6
	Other pass through		(0.0)	(0.1)	0.3	0.3	0.5	0.4	0.9
	Other allowance changes		(0.2)	(0.4)	1.1	0.3	0.8	(2.7)	(1.9)
Exit		(0.0)	0.0	(0.1)	(0.4)	(0.6)	(0.6)	(1.2)	
Real Price Effects (RPEs)		0.0	(0.9)	(0.6)	(1.4)	(2.8)	(1.9)	(4.7)	
Total movement		3.0	0.4	(5.2)	11.6	23.9	30.6	11.4	45.0

Pipeline of re-opener applications

RRP Table 11.05	HSE Policy	Specified Streetworks	Net Zero Pre-construction Work and Small Net Zero Projects
21/22	1.0	2.3	-
22/23	1.2	2.2	-
23/24	4.3	2.1	-
24/25	5.1	2.4	3.8
25/26	5.0	2.1	3.8
Total	16.6	11.1	7.5

These are the largest reopeners as presented in Table 11.05 in **2022/23 RRP**. Note this is the expenditure level increase not revenue – revenue increase would be smaller due to fast/slow money mechanics.

Timeline between now and 24/25 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 24/25:

- 30th September – GDN’s submitted first dry run of the Annual Iteration Process (AIP) – this mod186 update matches the AIP submission.
- Published early January, finalised AIP will include further changes to allowed revenue for:
 - Final position on Real Price Effects (RPE’s)
 - WACC changes for updates to cost of debt and equity allowances
 - Any challenges received from Ofgem in relation to AIP 2 entries.
 - Oct/Nov 23 OBR inflation position
 - Shrinkage - dependant on gas price variations vs. what is currently assumed.
- 60-day notice – 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 we need. We have currently assumed nil SOQ change and will revise this later in the year.