

NGN Mod186 Pricing Statement

Movement from September 2023 to Dec 2023

**we are
the network**

Summary of key updates September 23 to December 2023:

AIP updates

This update includes the current position from Annual Iteration Process Dry Run 3 which includes Ofgem's updates for the November budget, and the related OBR publications. This has had the following effects on revenue:

- **Inflation: + £15m**
- **Risk free rate: +£5.5m (this is the deemed cost of borrowing)**
- **Real Price Effects (RPEs): -£2.2m (for areas of our cost base that don't follow CPI growth)**

Inflation	21/22	22/23	23/24	24/25	25/26
CPIH Dec23	3.674%	8.774%	6.250%	3.047%	1.710%
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%

- **Pension: - 2.3m**

NGN will be further de-risking the defined benefit pension scheme for consumers, by undertaking a further insurance buy in of the pension scheme. This has been reprofiled since our last MOD 186 as approved by Ofgem.

- **Shrinkage: - £2.4m**

Our current forecasts include the following Heren prices:

Year	Dec-23 £/therm	Sep-23 £/therm	Jun-23 £/therm	Mar 23 £/therm	Dec 22 £/therm
22/23	1.75	1.75	1.75	2.19	2.37
23/24	1.00	1.08	0.89	3.03	3.58
24/25	1.25	1.42	1.15	2.24	2.49
25/26	1.10	1.17	1.04	1.59	1.17

Gas Prices have fallen again.

- **Totex changes:- £4.5m**

This includes a changes to fuel poor and cyber allowances.

Mod 186 - Sept 2023 - Dec 2023

	21/22	22/23	23/24	24/25	25/26	GD2	
Mod186 : Sept 2023	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 - Collected	416.9	416.9	416.9	416.9	416.9	
	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%		
Mod186 : Latest Position	Calculated revenue	430.7	566.2	571.8	559.1	579.8	
	AIP adjustment term	-	23.3	(7.7)	(42.5)	-	
	Adjusted revenue	430.7	589.6	564.1	516.7	579.8	2,681
	Legacy Allowed Revenue	(13.8)	10.8	0.1	0.8	0.6	
	K Correction Factor	0.2	0.4	4.4	4.7	-	
	Allowed Revenue	417.2	600.7	568.7	522.2	580.3	2,689
	Recovered Revenue - Collected	416.9	416.9	416.9	416.9	416.9	
	Inflation %	4.5%	8.8%	6.2%	3.0%	1.7%	
	SOQ % Change	1.4%	(0.1)%	(7.4)%	(11.0)%	-	
LDZ Price Change	(13.7)%	15.4%	20.4%	10.3%	7.0%		
Difference	Calculated revenue	-	-	-	13.1	23.9	
	AIP adjustment term	-	-	-	(3.5)	-	
	Adjusted revenue	-	-	-	9.6	23.9	33
	Legacy Allowed Revenue	-	-	0.1	0.1	0.1	
	K Correction Factor	(0.0)	0.0	(0.0)	0.2	-	
	Allowed Revenue	(0.0)	0.0	0.1	9.8	24.0	33.9
	Recovered Revenue	-	-	-	-	-	
	Inflation %	-	-	0.9%	2.4%	1.5%	
	SOQ % Change	-	-	-	(11.0)%	-	
LDZ Price Change	-	-	-	13.1%	2.9%		

Movements from September – December 2023

Breakdown of movements		23/24		24/25		25/26		GD2
		Total	24/25 Adj	Reforecast 24/25	Total	Reforecast 25/26		
Adjusted Revenue movements	Inflation		1.8	13.2	15.0	20.1		35.1
	RFR		-	5.5	5.5	4.3		9.8
	Iboxx		-	0.9	0.9	1.7		2.6
	Under collection		-	0.1	0.1			0.1
	Tax		-	0.0	0.0	0.1		0.1
	VCMA		-	-	-	(1.3)		(1.3)
	Other (SOLR, Close out)	0.1	-	(0.3)	(0.3)	0.1		(0.2)
	Real Price Effects (RPEs)		(0.6)	(1.6)	(2.2)	(2.4)		(4.6)
	Pension		(0.0)	(2.2)	(2.3)	2.3		0.1
	Shrinkage		(0.8)	(1.5)	(2.4)	(0.6)		(3.0)
	Totex changes		(3.8)	(0.6)	(4.5)	(0.2)		(4.7)
Total movement		0.1	(3.5)	13.4	9.8	24.0		33.9

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:

- The Annual Iteration Process (AIP) was completed and published in early December, and we have used the latest draft of the PCFM, issued by e-mail following the update for latest Ofgem update for the OBR forecast, therefore no further changes are expected.
- Shrinkage – dependant on gas price variations vs. what is currently assumed, possible amendment.
- SOLR – we have included the minded to decisions from Ofgem, therefore, no further changes are expected.
- Capacity– 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 needed. We have currently assumed a reduction in the SOQ of 11.0%.