

Calculating our impact on household bills

An explanation of the methodology

July 2018



Where possible, when we're talking to our stakeholders about our plans, we try to explain the impact of our costs on household energy bills. To do this, we use a methodology based on the way Ofgem calculates the make-up of the average household bill (splitting it by network costs, generation, suppliers, etc.).

This is not a straightforward calculation, so at the request of our stakeholders, in this document we try to explain this methodology in more simple terms.

The process behind the calculation

In order to calculate our impact on the household bill, we begin with our costs, which we then convert into allowances (which will be set by Ofgem for RIIO-2), and we use these allowances to calculate the impact on our revenue. From this, we are able to calculate the impact on bills.



Bill impact calculation methodology and assumptions

How we use our cost, allowances and revenue calculations to calculate the impact on household bills is explained in further detail below.

- **Costs:** we use cost profiles based on our current year unit costs, and will update these costs based on what our stakeholders tell us as we build our plans with them
- **Allowances calculation:** we assume that our allowances are equal to our current spend profile, and will update these as we build our stakeholder-led business plan
- **Revenue calculation:** we assume that RIIO-2 will be five years long; we will initially use the RIIO-T1 methodology and financial parameters (such as cost of equity and regulatory depreciation profiles), and will update these as the RIIO-2 framework and parameters are developed and published by Ofgem.
- **Household bill impact:** we calculate our contribution to network costs using a top down calculation (to reflect Ofgem's methodology); we assume flat demand and that demand users pay as per the methodologies used in April 2018 charge setting; we will update our charging methodology and demand profile assumptions to reflect any significant future changes.

* NHH = non-half-hourly metered consumers, who are generally households and small business consumers

