

2018 / 19 Indicative Statement

**150-day notice of transportation
charges effective from 1st April 2018**

Indicative Notice of LDZ Transportation Charges from 1 April 2018

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2018 for Northern Gas Networks Limited (NGN), in line with the Gas Transporter Licence requirement to provide 150 days' notice of such proposals. The definitive notice of distribution transportation charges effective from 1 April 2018 will be published by 31 January 2018, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

NGN's headline price change for 18/19 is **-0.7%**. This represents an LDZ price decrease of **-0.6%** combined with an average exit capacity price decrease of **-7.4%**.

As shown in the table below NGN's allowed revenue reduces by £1.4m year on year - movements greater than £0.5m year on year are detailed below. Whilst this is a reduction of -0.3% we need an overall price decrease in our unit rates of -0.7% because of changes in capacity levels against which unit rates are charged.

Notes		17/18	18/19	Var	Var %
1	PRICE CONTROL REVENUE	420.4	438.3	17.9	4.2%
	Adjustments to Base Revenue				
2	Cost of Debt	(9.4)	(14.0)	(4.6)	
3	Pension deficit true ups	0.4	(3.7)	(4.1)	
4	FGO Allowance impact	(1.1)	(2.1)	(1.0)	
	Totex incentive mechanism	(3.5)	(3.7)	(0.2)	
	Repex Tier 2a workload	(0.8)	(1.0)	(0.2)	
	Tax trigger events	(2.0)	(1.8)	0.2	
	Legacy GDPCR1 Adjustments	1.8	2.1	0.3	
5	RPI true ups	(9.4)	(1.7)	7.7	
	ADJUSTED BASE REVENUES	396.9	412.9	16.0	4.0%
6	Non Controllable Cost True Ups	(7.1)	(8.6)	(1.5)	
	Network Innovation Allowance	2.5	2.6	0.1	
	Incentives				
7	NTS Exit Capacity	3.4	1.9	(1.4)	
	Customer Satisfaction	2.2	2.1	(0.1)	
	Stakeholder Engagement	1.2	1.3	0.1	
	Shrinkage	0.6	0.9	0.3	
8	Environmental Emissions	3.1	5.0	2.0	
	Total Incentives	10.4	11.2	0.9	
9	Under/(Over) Collections "K"	6.5	(10.4)	(16.9)	
	TOTAL ALLOWED REVENUE	409.1	407.7	(1.4)	(0.3%)
10	AQ/SOQ Change Impact - impact from 17/18 over collection				(0.4%)
10	AQ/SOQ Change Impact - during 18/19				0.0%
	OVERALL PRICE CHANGE				(0.7%)

Note 1: Price Control Revenue - this is the allowed revenue as determined by Ofgem in the price control settlement (Final Proposal's data)

Note 2: Cost of Debt - Ofgem's final proposals included a cost of debt allowance based on an IBOXX index 10-year trailing average of 2.92%. NGN's forecast for the average index applicable for 18/19 (based on a projection as at 31st October 2017) is 1.93% which results in a revenue reduction of £14m when compared with the original allowance.

Note that Ofgem are reviewing the position for 18/19 as the Bank of England ceased publishing yields used to calculate the real cost of debt allowance on the 5th May 2017.

3: Pension Deficit True Ups – the reduction year on year represents the latest impact from the most recent 2016 valuation. Whilst this is a £4.1m reduction in funding NGN paid an additional £21m into the scheme during 2017 with the movement to an Asset Backed Contribution Scheme. Our profile for recovery of this additional investment is being spread largely over the RIIO-GD2 period which will minimise the impact on end consumers.

Note 4: FGO Allowance – this represents the change in allowances because of the FGO programme (Funding, Governance and Ownership). As our share of Xoserve has reduced so has our share of the costs.

Note 5: RPI True ups - this is "trueing" up any differences between forecast and actual RPI. There is a 2-year lag for this adjustment so the £1.7m adjustment in 18/19 relates to differences arising in 16/17. Prices were set in advance for 16/17 using a HM Treasury forecast RPI of +2.3% compared to the actual RPI of 2.1%.

Note 6: Non-Controllable – GDN's can recover the full cost of areas that are classified as non-controllable (rates, Licence fee, NTS pension deficit, shrinkage and exit costs). When actual costs vary from the original allowance GDN's can adjust for this difference. The movement year on year of £1.5m represents variations across rates, Licence fee and exit capacity.

Note 7: Exit Capacity Incentive – GDN's are incentivised to reduce their capacity bookings with the NTS and will earn additional income if their actual bookings are below the original allowances.

NGN have successfully reduced bookings by c.16% below allowances – the reduction in incentive income year on year of £1.4m is due to a reduction in the NTS unit rates to which the incentive mechanism is linked.

Note 8: Environmental Emissions Incentive – NGN have earned an additional £2m year on year by reducing the leakage volumes by a further 28 Gwh enabled by a successful pressure management initiative.

Note 9: Under / (Over) Collection – we aim to collect what we are "allowed" and set prices accordingly to collect the correct amount of revenue. The level of change in annual quantities and peak day demand must be forecast when prices are published – any difference between this assumption and the actual change will result in revenue being under or over collected.

In 16/17, we over collected by £10m which is now being returned to consumers 2 years later in 18/19. With the introduction of Project Nexus ways of working the under/over collection caused by differences in capacity levels should be reduced significantly.

Note 10: 2017 Load Factors – load factors are the relationship between Annual Quantities (AQ) and peak day demand (also referred to as SOQ/Supply Offtake Quantity). The method of collecting income is largely linked to peak day demand and as such is a critical measure in the accuracy of any price change needed.

We have reviewed the changes in the 2017 load factors and included an estimate of zero % change. Our price change includes a reduction of -0.4% due to over collection during 17/18. When the 60-day notice is published we will know with more certainty what the capacity levels will be during the 18/19 period and may further adjust the price change as a result.

Inflation: Included in the above numbers is an assumed inflation rate of 3.5% based on forecasts compiled by HM Treasury and published in its August 2017 Forecasts for the UK Economy document. When we publish our 60-day notice this will be updated to reflect RPI forecasts from the corresponding November report.

3. Uncertainties around Indicative Transportation Charges

At the time of this publication Ofgem have not formally published the “MOD” figure that will be included in 18/19 prices after running the Annual Iteration Process. The indicative charges above include an estimate of what the MOD will be and this will be updated with finalised figures for the 60-day pricing notice.

NGN have included forecast cost of debt at 1.93% in this statement – Ofgem are currently reviewing the final valuation as one of the inputs to this measure from the Bank of England has stopped being produced.

We have estimated the new AQ and SOQ capacity levels that will form the basis of charging under Project Nexus during 18/19. The snapshot of capacity data to be applied for 18/19 charging purposes will be taken in December 2017 and any significant variations adjusted for in the 60-day notice.

We have not included any adjustment relating to a claim for the supplier of last resort from Co-operative Energy and await further clarification from Ofgem. We expect to receive direction in time for our final 60-day publication.

4. Further Information

If you have any queries or require any further details on this notice please contact:

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Appendix 1 - Indicative Unit Charges and Charging Functions effective 1st April 2018

LDZ System Capacity Charges - Directly Connected Supply Points and Connected Systems

Charge band (kWh/annum)	Current (17/18)	Effective from 1 st April 2018
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1987	0.1975
73,200 to 732,000	0.1708	0.1697
>732,000	$2.0033 \times \text{SOQ}^{-0.2834}$	$1.9907 \times \text{SOQ}^{-0.2834}$
Subject to a minimum rate of:	0.0052	0.0052
Minimum reached at SOQ of:	1,330,465,740	1,301,172,172

LDZ System Commodity Charges - Directly Connected Supply Points and Connected Systems

Charge band (kWh/annum)	Current (17/18)	Effective from 1 st April 2018
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0313	0.0311
73,200 to 732,000	0.0268	0.0266
>732,000	$0.3445 \times \text{SOQ}^{-0.294}$	$0.3423 \times \text{SOQ}^{-0.294}$
Subject to a minimum rate of:	0.0010	0.0010
Minimum reached at SOQ of:	426,476,718	417,283,901

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (17/18)	Effective from 1 st April 2018
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1061	0.1054
73,200 to 732,000	0.0038	0.0038
>732,000	$0.0809 \times \text{SOQ}^{-0.2100}$	$0.0804 \times \text{SOQ}^{-0.2100}$

LDZ Customer Fixed Charges - 73,200 to 732,000 kWh / annum only

Type of Supply Point	Current (17/18)	Effective from 1 st April 2018
	Fixed p / day	Fixed p / day
Non-monthly read supply points	33.32	33.11
Monthly read supply points	35.48	35.26

CSEP Administration Charge - calculated by Xoserve and independent of the price control settlement

	Current (17/18)	Effective from 1st April 2018
Charge per supply point	0.0755 pence per day (£0.28 per annum)	Nil under Project Nexus

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (17/18)	Effective from 1st April 2018
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0076	0.0060
NE2	0.0007	0.0005
NE3	0.0007	0.0005
NO1	0.0016	0.0026
NO2	0.0064	0.0060

Appendix 2 – DN Entry Indicative Unit Rates 18/19

The following table shows the indicative unit rates for sites that are flowing gas or have flowed for 1 day. This has an assumed forecast volume for 18/19 which we are currently reviewing. Should any additional new sites start to flow gas after this publication or volumes forecasts change significantly we will adjust in our final 60-day pricing notice.

Site	Xoserve Site Name	Current		Effective from 1st April 2018	
		Unit rate	Charge or Credit	Unit rate	Charge or Credit
Howdon	HOWDOS	(0.03147)	Credit	(0.03235)	Credit
Leeming	LEEMOS	(0.01636)	Credit	0.01314	Charge
Teeside	FOOTOS	(0.01300)	Credit	(0.02052)	Credit
Cumbria	ASPAOS	(0.02634)	Credit	(0.01734)	Credit
Agri Sherburn in Elmet	SHEROS	(0.03469)	Credit	(0.01146)	Credit
Ridge Road Sherburn in Elmet	RIDGOS	0.01397	Charge	0.03269	Charge
Burtos Agnes	BURTOS	0.02444	Charge	0.08167	Charge
Emerald Biogas	NEWTOS	(0.03341)	Credit	(0.03900)	Credit
Gravel Pit	GRAVOS	(0.01553)	Credit	0.01824	Charge
Mill Nursery	MILLOS	0.0232	Charge	0.02497	Charge