

Scotland Gas Networks
Indicative Notice of Change to
Transportation Charges from
1st April 2018



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1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1st April 2018, in line with our Gas Transporter Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1st April 2018 will be published by 1st February 2018, in accordance with the two months' notice requirement within the UNC.

2 Indicative changes to Distribution Transportation Charges on 1st April 2018

The average change to charge levels from 1st April 2018 is forecast to be an increase of 5.9%.

The levels of charges have been constructed based on the latest available forecasts of the 2018/19 Allowed and Collected Revenues, which are still subject to change. The key movements of the indicative price change which includes revenue associated with NTS Exit Capacity charges are set out below:

- The inflationary impact on 2018/19 revenue is 5.1%. The two components of this are, the forecast year on year RPI impact (3.5%) and the movement in the adjustment to reconcile 2016/17 RPI forecast to the actual position (1.6%), which is subject to a two-year lag;
- The year on year impact on Base Revenue as stated at Final Proposals adjusted to reflect the value directed by Ofgem's Annual Iteration Process (-1.8%);
- The impact of 2016/17 actual pass through costs (compared to allowances) and Incentives, which are on a two-year lag (0.4%);
- The adjustment relating to the over recovery of revenue in 2016/17 (k), which has been subject to a two-year lag (2.7%);
- The collected revenue position reflecting the latest view (October 2017) of SOQ's (-0.5%).

3 Uncertainties Impacting April 2018 Final Transportation Charges

At this stage, there are still uncertainties which may cause an actual change in the charges, which will be published by 1st February 2018, to be different from the indicative change.

The major uncertainties are: -

- The final determination of the adjustment required to base revenue for 2018/19 through the Annual Iteration Process. Please note that the charges in this document reflect a cost of debt position (2.03%) using data up to 4 May 2017, the last date of publication for certain Bank of England data.
- Updated inflation (RPI) for 2017/18 to the defined levels as stated in the November 2017 Treasury Forecast.
- The level of future supply point capacity and numbers.

- That these charges do not reflect any claim relating to a Last Resort Supply Payment (LRSP). Ofgem have confirmed that they have received a LRSP. For that claim to be processed as per Special License Condition 48, a supplier must have consent from Ofgem. Ofgem are currently considering the claim and will consult on the proposed decision, they are currently unable to advise as to the value of the claim. Ofgem expect to come to a decision before January 2018 enabling networks to recover the costs through the 2018/19 final charges

4 Distribution Network (NTS) Exit Capacity Charges (ECN)

Following the implementation of Uniform Network Code Modification 0195AV industry arrangements for the charging of NTS Exit Capacity costs changed on the 1st October 2011. National Grid Transmission invoice gas Distribution Networks (DNs) for booked NTS Exit Capacity and DN will invoice gas shippers in line with DNPC06 ("Proposals for LDZ Charges to Recover NTS Exit Capacity Charges).

4.1 Exit Capacity Indicative Charges (ECN) 1st April 2018

The change to charge levels from 1st April 2017 is forecast to be a decrease of 46.2%.

Please note that the revenue associated with these charges in Scotland is relatively low (£0.3m) therefore small changes in revenue can result in significant movements in year on year percentage price change.

Assumptions relating to the calculation of the indicative ECN charges:

- The charge rates shown in Table 1 reflect the allowance proportioned to the costs based on the National Grid NTS Exit Capacity price change on 1st October 2017 for the period April to September 2018. The indicative October 2018 rates for the period October 2018 to March 2019, published on 27th April 2017.

Table 1 below shows the indicative charge rates set to recover the 2018/19 NTS Exit Capacity cost allowance, 2016/17 K and allowance adjustments for Scotland.

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SC01	0.0002
SC02	0.0002
SC04	0.0002
LC	0.0002
LO	0.0002
LT	0.0002
LW	0.0002
LS	0.0003

Table 1: April 2018 Indicative NTS Exit Capacity (ECN) Charge Rate

5 April 2018 LDZ Indicative System Entry Commodity Charge

The LDZ System Entry Commodity charge rates reflect the operating costs associated with the entry of the distributed gas and the benefits in terms of deemed NTS Exit and distribution network usage. The rate associated with the LDZ System Entry Commodity Charge is calculated on a site by site basis. There are currently **nineteen** sites located within Scotland Gas Networks.

Site Name	GEMINI Reference	Distributed Gas Commodity Rate(p/kWh)
Grissan Girvan	GIR1 / GIR2	0.0001 (credit)
Mains of Keithnick	COUPOS	0.0708 (credit)
Grissan Riverside	RIVEOS	0.0584 (credit)
Charlesfield St Boswells	BOSWOS	0.0709 (credit)
Dunnswood Road Cumbernauld	DUNNOS	0.0714 (credit)
East Memus Farm	CARNOS	0.0714 (credit)
Foveran / Savock Farm	FAVROS	0.0713 (credit)
Moray Hill Farm / Tornagrain	MORYOS	0.0584 (credit)
Peacehill Farm	PEACOS	0.0583 (credit)
Peterhead	DOWNOS	0.0585 (credit)
Port Gordon Portside	POG1	0.0584 (credit)
Tambowie Farm	TAMBOS	0.0585 (credit)
Skeddoaway Farm	SKEDOS	0.0714 (credit)
Strathcathro	STRCOS	0.0584 (credit)
Tornagrain 2	MOR2	0.0001 (credit)
Oban LNG Medium Pressure	OBIG	0.0411 (credit)
Campbeltown LNG Low Pressure	CAM1	0.1303 (credit)
Thurso LNG Medium Pressure	THU1	0.0482 (credit)
Wick LNG Medium Pressure	WIC1	0.0504 (credit)

SGN are aware of new DN entry points that are progressing through their engineering development these may require new DN entry rates to be published within the charging period.

6 Methodology Changes

There are currently no amendments to transportation charging methodology that will impact on charges for the period 1st April 2018 to 31st March 2019.

If you have any queries or require any further details on this notice, please contact us at

pricingteam@sgn.co.uk

Appendix: Indicative Unit Charge Rates from 1st April 2018

The average change to the charge rates shown below is forecast to be an increase of 5.9%.

These charge rates have been balanced in line with industry requirements to reflect the required proportions between Capacity (95%) and Commodity (5%) revenue. They have also been adjusted to maintain the agreed revenue split between System Charges (71.2%) and Customer Charges (28.8%).

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

Charge Band (kWh/annum)	Capacity p/peak day kWh
Up to 73,200	0.2058
73,200 to 732,000	0.1853
>732,000	$1.1963 \times \text{SOQ}^{-0.2338}$
Subject to a minimum rate	0.0091

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

Charge Band (kWh/annum)	Commodity p/kWh
Up to 73,200	0.0305
73,200 to 732,000	0.0273
>732,000	$0.2231 \times \text{SOQ}^{-0.2597}$
Subject to a minimum rate	0.0014

LDZ Customer Capacity Charges

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.1166
73,200 to 732,000	0.0038
>732,000	$0.0785 \times \text{SOQ}^{-0.21}$

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

Supply Point Type	p/day
Non-monthly read supply points	32.2253
Monthly read supply points	34.3130