

2021/22 Indicative Statement

**150-day notice of transportation
charges effective from 1st April 2021**

Indicative Notice of LDZ Transportation Charges from 1 April 2021

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2021 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 2021 will be published by 31 January 2021, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

- The LDZ price change for 2021/22 is a reduction of **(12.9%)**. This represents an (11.5%) reduction in allowed revenue year on year combined with (1.4%) forecast impact of capacity related changes, following the seasonal normal reset that occurs every 5 years.
- The exit capacity price change for 2021/22 is an increase of **+783.7%**. This represents a 787% increase in allowed revenue (due to modification 678) combined with (3.1%) forecast impact of capacity related changes. This % price change is due to the allowances increasing from c.£3m to c.£30m.

2021/22 is the start of the new price control period, RIIO-GD2. Draft determinations were published in July and these are included within our indicative unit rates for 2021/22.

Please note that final revenue allowances for RIIO-GD2 will be published in December 2020 and will be included in the 60-day notice. It is anticipated that there will be movement from draft determinations albeit we have included our best estimate within indicative unit rates.

The table below shows the year on year movement in allowed revenue. Exit capacity is a pass-through cost area where we receive an allowance to match the cost – as such any large increase in revenue allowance does not benefit NGN as the same cost will be incurred.

Due to the large change in exit capacity the analysis below shows allowances separately which highlights the underlying reduction in all other allowances from the start of RIIO-GD2 (c. 8% reduction based on Draft Determinations).

| Revenue Excl.Exit Capacity | Notes | 20/21 | 21/22 | Var | Var % |
|---|----------|--------------|---------------|---------------|----------------|
| Base allowances (excl. Exit) | 1 | 423.1 | 389.9 | (33.2) | (7.8%) |
| Cost True Ups (from 18/19 and 19/20) | | | | | |
| Shrinkage | 2 | (5.4) | (9.1) | (3.7) | |
| Other Non Controllable | | 7.4 | 7.4 | 0.1 | |
| Supplier of Last Resort | 3 | 0.9 | 0.0 | (0.9) | |
| Total | | 2.9 | (1.6) | (4.5) | |
| Incentives (from 18/19 and 19/20) | | 10.0 | 9.8 | (0.2) | |
| Under/Over Collection: | | | | | |
| Under collection from 18/19 | | 0.5 | | (0.5) | |
| Over collection from 19/20 | | | (13.0) | (13.0) | |
| Under collection during 20/21 | | (1.4) | - | 1.4 | |
| Total | 4 | (0.9) | (13.0) | (12.1) | |
| Total (excl. Exit) | | 435.1 | 385.1 | (50.0) | (11.5%) |
| SOQ Forecast Change | 5 | | | | (1.5%) |
| Prior Year SOQ impact | | | | | 0.1% |
| LDZ Price Change | | | | | (12.9%) |

| Exit Capacity | Notes | 20/21 | 21/22 | Var | Var % |
|---------------------------------------|----------|-------------|-------------|-------------|---------------|
| Base allowances | 1 | 12.0 | 37.7 | 25.6 | 213.3% |
| Exit Capacity cost true up (2 yr lag) | | (8.6) | (7.5) | 1.1 | |
| Total allowances | | 3.4 | 30.2 | 26.8 | 786.9% |
| SOQ Forecast Change | | | | | (1.5%) |
| Prior Year SOQ impact | | | | | (1.6%) |
| Exit Price Change | | | | | 783.7% |

| | | | | |
|---------------------------------|--------------|--------------|---------------|---------------|
| Total Revenue Allowances | 438.5 | 415.3 | (23.2) | (5.3%) |
|---------------------------------|--------------|--------------|---------------|---------------|

Note 1 Base allowances:

- 20/21 is the last year of GD1. This is final proposal data as determined by Ofgem, plus the “Modt” adjustment to update areas such as cost of debt, totex outperformance and RPI true ups.
- 21/22 data is as per Draft Determinations published by Ofgem with the following adjustments made:
 - Exit capacity allowances have been updated to reflect the latest NTS published prices on the assumption that this will be included with December final determinations.
 - An assumption that repex allowances will increase albeit due to the revenue mechanism this has a very small impact in 2021/22.
 - An estimate of the final “Modt” values for 2019/20 and 2020/21. Due to the 2-year lag mechanism the impact of Totex outperformance and tax will need to be included within the first 2 years of RIIO-GD2.

Note 2 Shrinkage: this is the adjustment to ensure that revenue allowances use actual day ahead Heren prices. Original GD1 allowances for shrinkage are too high and we are returning money 2 years after. Average gas prices dropped by 29 pence per therm year on year, so the amount returned is higher in 2021/22 to reflect this.

Note 3 Supplier of Last Resort: In 2020/21 we collected income for 3 Supplier of Last Resort Claims. So far for 2021/22 we have been notified of 1 claim for £37k, however Ofgem may notify us of more potentially to include in our 60-day notice.

Note 4 Under/Over Recovery: The biggest impact is the over recovery made during 2019/20 of which £13m is being returned to customers during 2021/22. This was as a result of significant AQ defect corrections made after prices had been set.

Note 5 SOQ/load factors change: 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 assumed a 1.5% increase in capacity levels which further reduces the price change required by 1.5% to collect the allowed revenue amount for 2021/22. After receiving the final snapshot in December further analysis will be completed and if needed the assumption will be updated in the 60-day notice.

Xoserve data used within this price change indicates a change in the mix of Annual Quantities across non-daily metered sites, with a slight increase in the domestic market and decreases across most of the industrial and commercial load bands. The effect of updated load factors has significantly increased NGN's peak day capacity SOQ data particularly within the domestic market by +1.9%.

Inflation: Included in the above numbers is an assumed CPI inflation rate of 1.65% based on forecasts compiled by HM Treasury and published in its August 2020 Forecasts for the UK Economy document. When we publish our 60-day notice this will be updated to reflect final determination methodology. Note that base revenue is now expected to be inflated by CPIH rather than RPI, which is typically up to 1% lower.

3. Uncertainties around Indicative Transportation Charges

There is usually minimal movement between indicative and final prices. However, the introduction of a new price control period combined with the timing of this publication may result in further changes once final determination data is known.

The snapshot of capacity data to be applied for 2021/22 charging purposes will be taken in December 2020 and any significant variations adjusted for in the 60-day notice. Xoserve data as at 5 October has been used in preparation of this statement but may be subject to change until the final snapshot is available.

The SOQ data also includes the impact of the seasonal normal data reset which takes place every 5 years. This has resulted in an increase in capacity levels compared to decreases in prior years which has further reduced the price change needed.

If further AQ defects materialise this also places further risk around the price setting process, albeit there has been significant work by Xoserve to reduce the volume of outstanding defects.

Any bad debt currently identified as part of the UNC0726 Shipper Liquidity Relief scheme has not been included within this statement albeit we expect the impact to be minimal.

4. Further Information

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

Jon Trapps
Pricing and Revenue Manager
Northern Gas Networks
1100 Century Way
Thorpe Park
Leeds
LS15 8TU
07947 853517
jtrapps@northerngas.co.uk

Appendix 1 - Indicative Unit Charges effective from 1st April 2021

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

| Charge band (kWh/annum) | Current (20/21) | Effective from 1 st April 2021 |
|-------------------------------|-------------------------------------|---|
| | Capacity p / peak day kWh / day | Capacity p / peak day kWh / day |
| Up to 73,200 | 0.2125 | 0.1851 |
| 73,200 to 732,000 | 0.1826 | 0.1591 |
| >732,000 | $2.1423 \times \text{SOQ} - 0.2834$ | $1.8664 \times \text{SOQ} - 0.2834$ |
| Subject to a minimum rate of: | 0.0055 | 0.0048 |
| Minimum reached at SOQ of: | 1,383,096,554 | 1,374,648,179 |

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

| Charge band (kWh/annum) | Current (20/21) | Effective from 1 st April 2021 |
|-------------------------------|-------------------------------------|---|
| | Commodity p / kWh | Commodity p / kWh |
| Up to 73,200 | 0.0335 | 0.0292 |
| 73,200 to 732,000 | 0.0287 | 0.0250 |
| >732,000 | $0.3684 \times \text{SOQ} - 0.2940$ | $0.3210 \times \text{SOQ} - 0.2940$ |
| Subject to a minimum rate of: | 0.0011 | 0.0010 |
| Minimum reached at SOQ of: | 387,424,301 | 335,372,402 |

LDZ Customer Capacity Charges

| Charge band (kWh/annum) | Current (20/21) | Effective from 1 st April 2021 |
|-------------------------|-------------------------------------|---|
| | Capacity p / peak day kWh / day | Capacity p / peak day kWh / day |
| Up to 73,200 | 0.1134 | 0.0988 |
| 73,200 to 732,000 | 0.0041 | 0.0036 |
| >732,000 | $0.0866 \times \text{SOQ} - 0.2100$ | $0.0754 \times \text{SOQ} - 0.2100$ |

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

| Type of Supply Point | Current (20/21) | Effective from 1 st April 2021 |
|--------------------------------|-----------------|---|
| | Fixed p / day | Fixed p / day |
| Non-monthly read supply points | 35.6391 | 31.0491 |
| Monthly read supply points | 37.9474 | 33.0601 |

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

| Exit Zone | Current (20/21) | Effective from 1 st April 2021 |
|-----------|------------------------------------|---|
| | Capacity p / peak day kWh / day | Capacity p / peak day kWh / day |
| NE1 | 0.0032 | 0.0152 |
| NE2 | 0.0003 | 0.0176 |
| NE3 | 0.0003 | 0.0176 |
| NO1 | 0.0007 | 0.0162 |
| NO2 | 0.0033 | 0.0143 |

Appendix 2 – DN Entry Indicative Unit Rates 21/22

The following table shows the indicative unit rates for sites that are flowing gas or have flowed for 1 day. 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.

| Xoserve Site name | Site Name | Charge Code : LEC | Current (20/21) | | Effective from 1st April 2021 | |
|----------------------|-------------------------------|----------------------|------------------|-----------------------------------|----------------------------------|-----------------------------------|
| | | Go Live Date | Pence per kWh | Unit Rate: Charge or Credit | Pence per kWh | Unit Rate: Charge or Credit |
| HOWDOS | Howdon | 17/02/2015 | (0.03249) | Credit | (0.04119) | Credit |
| FOOTOS | Teeside | 29/09/2015 | (0.02236) | Credit | (0.02177) | Credit |
| LEEMOS | Leeming | 22/12/2015 | (0.03660) | Credit | (0.04006) | Credit |
| ASPAOS | Cumbria | 31/05/2016 | (0.01715) | Credit | (0.02872) | Credit |
| RIDGOS | Ridge Rd Sherburn in Elmet | 21/07/2016 | 0.02535 | Charge | 0.00518 | Charge |
| SHEROS | Agri Sherburn in Elmet | 01/12/2016 | (0.03317) | Credit | (0.04228) | Credit |
| GRAVOS | Gravel Pit | 06/12/2016 | (0.00324) | Credit | (0.00630) | Credit |
| NEWTOS | Emerald Biogas | 08/12/2016 | (0.04350) | Credit | (0.05189) | Credit |
| BURTOS | Burtos Agnes | 18/01/2017 | 0.03413 | Charge | 0.01728 | Charge |
| LANEOS | Lanes Farm | 14/10/2019 | (0.02639) | Credit | (0.04957) | Credit |
| SPALOS | Spaldington | 22/10/2019 | 0.03756 | Charge | 0.01406 | Charge |
| BRANOS | Bran Sands | 28/11/2019 | (0.03325) | Credit | (0.05140) | Credit |
| WARDOS | Wardley | 09/12/2019 | (0.00979) | Credit | (0.00526) | Credit |
| PARKOS | Park Farm | 18/12/2019 | (0.02245) | Credit | 0.10281 | Charge |
| PLAXOS | Plaxton Bridge | 24/01/2020 | 0.04543 | Charge | 0.03215 | Charge |
| HEDLOS | High Hedley | 29/01/2020 | 0.05632 | Charge | 0.08139 | Charge |
| MILLOS | Mill Nurseries | n/a | n/a | n/a | n/a | n/a |