

SOUTHERN GAS NETWORKS plc

Indicative Notice of Change to Transportation Charges on 1st April 2013

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1st April 2013, in line with our Gas Transporter's Licence requirement to provide 150 days notice of such proposals.

The definitive notice of distribution transportation charges from 1st April 2013 will be published by 1st February 2013, in accordance with the two months notice requirement within the UNC.

2. Indicative Distribution Transportation Charges 1st April 2013

As the final decision from Ofgem regarding revenues for RIIO-GD1 PCR will not be known until December 2012, the indicative price change from April 2013 is shown as a range.

The range reflects the revenues outlined in both the Southern Business Plan published in April 12 and Ofgem's Initial Proposals, both excluding revenue from NTS Exit Capacity Charges.

The levels of charges have been constructed based on the latest available forecasts of the Allowed and Collected Revenues for 2012/13, which are still subject to change.

The table below shows the make up of the indicative price changes. It should be noted that the changes are driven by a combination of price control allowances, inflation and impact of reduced peak daily demand.

Table 1. Average Indicative Transportation Price Change from 1st April 2013

	Ofgem Initial Proposals RIIO-T1	SGN April 12 Business Plan RIIO-T1
Base Revenue 2012/2013 Prices	0.8%	4.1%
Assumed RPI 2013/2014	2.5%	2.5%
2012/2013 K Carried Forward due to Cost Pass Through/Incentives	1.5%	1.5%
SOQ Impact Forecasted Oct 20212 -5.4% and Assumed -2% Oct 2013	3.9%	3.9%
Indicative Average Price Change 1st April 2013	8.7%	12.0%

- The Base Revenue reflects the revenue outlined in Southern's April 2012 Business Plan (which includes under recoveries from GDPCR1) and Ofgem's Initial Proposals inflated to 2012/2013 prices.
- The assumed inflation for 2013/2014 has been calculated using the RIIO-GD1 license formula and the August 2012 Treasury Forecast.

- K Carried Forward reflects an under recovery from 2012/2013 of £15.9m. Current projections suggest that actual October 2012 SOQ reductions will be 5.4% rather than the assumed 3% reduction, this element alone accounts for £6.9m of the forecasted under-recovery.
- We have assumed in Southern a 2% reduction in SOQ from October 2013. This reduction impacts on the price change, due to the fact that as the capacity charging base reduces an increase in the unit rates are required to maintain the same levels of income.

The CSEP Administration Charge is expected to reduce to 0.0986 per day per supply point. Other administration charges and the Optional LDZ charge are expected to be unchanged.

4. Uncertainties

At this stage there are still significant uncertainties which will inevitably cause the actual change in the charges, which will be published on 1st February 2013, to be different from the indicative change.

The major uncertainties are:-

- The outcome of Ofgem's final decision on revenues for RIIO-GD1 PCR.;
- The level and collection of K carried forward from 2012/13.;
- The forecast level of inflation (RPI) for 2012/13.; and
- The level of future supply point capacity and numbers.

5. 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 will change on the 1st October 2012. 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).

5.1 Exit Capacity Indicative Charges (ECN) from April 2013

As the final RIIO PCR revenues for National Grid NTS have not been published the indicative price change from April 2013 is shown as a range, consistent with distribution charges. The range reflects Indicative NTS Exit Capacity charges based on the National Grid NTS March Business Plan and Ofgem's Initial Proposals which incorporates the current October NTS price change.

On the 24th October 2012 National Grid NTS published a discussion document proposing a potential one-off change to NTS Exit Capacity charges for April 2013 with the aim to reduce volatility, the impacts of this proposal have not been reflected in the rates shown below.

Table 3. Indicative Exit Capacity Charges (ECN) reflecting October NTS Price Change.

Exit Zone	Current Rates October 2012 (p/kWh/d)	Ofgem Initial Proposals RIIO- T1 (p/kWh/d)	National Grid March Business Plan RIIO-T1 (p/kWh/d)
SO1	0.0150	0.0150	0.0192
SO2	0.0257	0.0264	0.0316
SE1	0.0164	0.0161	0.0208
SE2	0.0164	0.0161	0.0208

Assumptions relating to the calculation of the indicative ECN charges:

- National Grid NTS Exit Capacity price change on 1st October 2013.
- Each Shipper's ECN charge has been calculated based on the total exit zone registered capacity (SOQ) as of 1st October 2012.
- The ECN charges reflect the current view of capacity bookings for the period 1st April 2013 to the 30th September 2013 and October 2013 to the 31st March 2014.
- Collection of under recovery for the period October 12 to March 13.

Exit Capacity Charges relating to the South East Local Distribution Zone:

The Local Transmission System in the South East LDZ is highly integrated with customers being supplied by a number of SGN's offtakes at various times throughout the gas year. One of the consequences of this integration is the capacity which is booked at the NTS Offtake into Exit Zone SE2 facilitates gas to flow through to customers located in Exit Zone SE1 in order to operate the network efficiently. Exit charges are now based on the capacity booked at NTS Offtakes supplying LDZ exit zones and are then charged using the nominated or calculated SOQ to Shippers in the respective Exit Zone. In the SE LDZ there are two Exit zones, SE1 and SE2. In Exit zone SE2 the capacity booked by SGN with NTS (and the associated charges) is greater than the capacity used in SE2, therefore customers would have to pay higher charges than the actual capacity used within this exit zone.

We believe this is an unintended consequence of the change in the charging methodology and in order to overcome this issue Southern Gas Networks have aggregated all of the NTS exit capacity charges in the SE LDZ (Exit Zones SE1 and SE2) which will result in the ECN charges being calculated using the same ECN rate within these two exit zones reflecting the fact that all NTS exit points provide the required capacity.

6. Methodology Changes

The new methodology relating to Distributed Gas Charging Arrangements as set out in Modification 0391 and approved by Ofgem in September 2012, will be implemented from 1st April 2013.

This new distribution transportation charge, the LDZ System Entry Commodity Charge, reflects the operating costs associated with the entry of the distributed gas and the benefits in terms of deemed NTS Exit and distribution network usage.

If you have any queries or require any further details on this notice please contact us at pricingteam@sgn.co.uk