

Issued 1st November 2015

Indicative Notice of LDZ Transportation Charges from 1 April 2016

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2016 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 2016 will be published by 31 January 2016, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

NGN's headline price change for 16/17 is **+5.1%**. This is in line with the recently published mod186 quarterly pricing statement. This represents an LDZ price change of **+4.2%** combined with an average exit capacity price increase of **+44.1%**.

As shown in the table below NGN's allowed revenue reduces by £9.1m year on year. Whilst this is a reduction of -2.2% we still need a price increase of +5.1% to compensate for the c.7% reduction in capacity following on from the 2015 Annual Quantity review process.

Notes	Year on Year revenue movements	15/16	16/17	Var £m	Var %
1	Price Control Revenue	427.9	419.9	(8.1)	(1.9%)
	<u>Adjustments to base revenue</u>				
2	RPI True ups	1.4	(5.9)	(7.4)	
3	Cost of Debt	(4.2)	(6.6)	(2.4)	
4	Shrinkage allowances	-	(0.4)	(0.4)	
5	Legacy GDPCR1 Income	1.4	1.6	0.2	
6	Other	(1.1)	(0.7)	0.3	
7	Fuel poor allowances	-	0.6	0.6	
8	Totex incentive	(2.8)	(2.1)	0.8	
	Base Revenue	422.6	406.3	(16.3)	(3.9%)
9	Pass Thru cost changes	(3.9)	(4.6)	(0.7)	
	<u>Incentives</u>				
10	Stakeholder Engagement	1.1	0.6	(0.5)	
11	Customer Satisfaction	1.8	2.1	0.3	
12	Exit Capacity	0.0	0.7	0.7	
13	Shrinkage & Environmental Emissions	2.7	3.5	0.7	
14	DRS award	-	0.8	0.8	
	Incentive total	5.7	7.7	2.0	
15	Under/(Over) Collection (K)	(3.2)	2.8	6.0	
	Total Allowed Revenue	421.2	412.1	(9.1)	(2.2%)
16	October 2015 "AQ" review % Impact				7.2%
	Total price change needed				5.1%

Year on year movements >£0.5m are detailed below:

Note 1: Price Control Revenue - this is the allowed revenue as determined by Ofgem in the price control settlement (final proposal data)

Note 2: RPI True ups - this is “trueing” up any differences between forecast RPI and actual. There is a 2 year lag for this adjustment so the £5.9m adjustment in 16/17 relates to differences arising in 14/15. Prices were set in advance for 14/15 using a treasury forecast RPI of 3.1% compared to the actual RPI of 1.96%.

Note 7: Fuel Poor Allowances - Ofgem have approved additional fuel poor connections in the remaining years of RIIO-GD1 across all GDN's. For NGN this results in an additional 2,500 connections and an extra £3.2m cost allowance which has been spread across years 16/17 to 20/21.

Note 8: Totex Incentive - this is a negative adjustment as we have outperformed the original allowances and are returning an element of this back to customers (36%), again with a 2 year lag. NGN's Totex outperformance reduced year on year by 2.5% which results in less money being given back through the totex incentive mechanism.

Note 9: Pass Through Costs - Prices are set with a forecast of non-controllable costs. Any difference between allowance and actual costs are adjusted for 2 years after. The adjustments above largely relate to differences on NTS exit and shrinkage costs.

Note 10: Stakeholder Engagement - NGN scored 5.5 in 14/15 which results in an incentive award of £0.6m – to be collected in 16/17.

Note 12: Exit Capacity - GDN's are incentivised to reduce exit capacity bookings at their offtake sites. NGN bookings were 22 Gwh below target levels in 14/15 which results in £0.7m from the incentive.

Note 13: Shrinkage and Environmental Emissions – GDN's can earn incentive income by reducing leakage volumes below the allowance. NGN's volume outperformance has increased from c.8% to c.10% in 14/15 which results in £3.5m incentive income collected in 16/17.

Note 14: Discretionary Reward Scheme – Ofgem awarded NGN £0.8m via the DRS scheme for the work we have done to support local people and communities.

Note 15: 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 has to 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 13/14 we over collected by £3.2m compared with an under collection of £2.8m in 14/15. Any differences are adjusted for 2 years after.

Note 16: October 2015 AQ review – as detailed in note 15 changes to Annual Quantities (AQ) and Peak Day Demand (SOQ) have an impact on the amount of revenue actually collected. When demand drops we will collect less revenue and have to increase unit rates to compensate.

The October 2015 AQ review included the seasonal norm reset which happens every 5 years which also included a change in the weather data set used. This had a particularly large one off impact within the NO region of our network resulting overall in network capacity dropping by c.7%.

As a consequence whilst our allowed revenue drops by 2.2% year on year we need to add another 7% increase on top of this - resulting overall in a 5.1% price change.

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 16/17 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.

Whilst we have a good indication of the Annual Quantity decline and this has been included in our indicative price change, we won't know the final outcome until we have visibility of October invoices issued during November.

Please also note the following:

We are analysing the changes made to supply points AQ's and SOQ's as a result of Mod428 supply point disaggregation for project nexus implementation. Because of known issues with some supply point splits we have not included any change in collected revenue until we have confidence that the new data is correct. If there is an underlying increase in collected revenue this could potentially reduce the size of the price change needed – once the data has been validated we will factor in any change into the 60 day notice.

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 1 April 2016

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

Charge band (kWh/annum)	Current (15/16)	Effective from 1 st April 2016
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1984	0.2068
73,200 to 732,000	0.1706	0.1778
>732,000	$2.0009 \times \text{SOQ}^{-0.2834}$	$2.0859 \times \text{SOQ}^{-0.2834}$
Subject to a minimum rate of:	0.0052	0.0054
Minimum reached at SOQ of:	1,324,849,946	1,343,032,542

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

Charge band (kWh/annum)	Current (15/16)	Effective from 1 st April 2016
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0312	0.0325
73,200 to 732,000	0.0268	0.0279
>732,000	$0.3441 \times \text{SOQ}^{-0.294}$	$0.3587 \times \text{SOQ}^{-0.294}$
Subject to a minimum rate of:	0.0010	0.0010
Minimum reached at SOQ of:	424,794,767	489,285,680

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (15/16)	Effective from 1 st April 2016
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1059	0.1104
73,200 to 732,000	0.0038	0.0040
>732,000	$0.0808 \times \text{SOQ}^{-0.21}$	$0.0842 \times \text{SOQ}^{-0.2100}$

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

Type of Supply Point	Current (15/16)	Effective from 1 st April 2016
	Fixed p / day	Fixed p / day
Non-monthly read supply points	33.28	34.70
Monthly read supply points	35.44	36.95

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

	Current (15/16)	Effective from 1 st April 2016
Charge per supply point	0.0910 pence per day (£0.33 per annum)	0.0829 pence per day (£0.30 per annum)

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (15/16)	Effective from 1 st April 2015
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0061	0.0090
NE2	0.0005	0.0016
NE3	0.0005	0.0016
NO1	0.0014	0.0021
NO2	0.0081	0.0068