

# Southern Gas Networks Indicative Notice of Change to Transportation Charges from 1 April 2023



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# Contents

<b>1 Introduction.....</b>	<b>3</b>
<b>2 Indicative changes to Distribution Transportation Charges on 1 April 2023 .....</b>	<b>3</b>
<b>3 Uncertainties Impacting April 2023 Final Transportation Charges.....</b>	<b>4</b>
<b>4 LDZ Indicative Unit Charge Rates from 1 April 2023 .....</b>	<b>4</b>
<b>5 Supplier of Last Resort Charges.....</b>	<b>6</b>
<b>6 April 2023 LDZ Indicative System Entry Commodity Charge .....</b>	<b>7</b>
<b>7 Methodology Changes .....</b>	<b>7</b>
<b>8 Distribution Network (NTS) Exit Capacity Charges (ECN) .....</b>	<b>7</b>
<b>9 Exit Capacity Indicative Charges (ECN) 1 April 2023 .....</b>	<b>7</b>

## 1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2023, in line with our Gas Transporter Licence requirement to provide 150 days' notice of such proposals.

The Office of Budget Responsibility (OBR) forecast, which calculates the inflation element of networks revenues and is due to be published on 17 November, could have a significant impact on 2023/24 tariffs.

Should Ofgem update the Price Control Financial Model (PCFM) that is due to be published on 30 November with the updated OBR forecast, then SGN may re-publish the indicative notice to reflect the impact this has on 2023/24 charge rates.

The definitive notice of distribution transportation charges from 1 April 2023 will be published by 1 February 2023, in accordance with the two months' notice requirement within the UNC.

## 2 Indicative changes to Distribution Transportation Charges on 1 April 2023

The average change to charge levels from 1 April 2023 is forecast to be a decrease of 0.9%.

The levels of charges have been constructed based on the latest available forecasts of the Allowed and Collected Revenues for 2022/23, which are still subject to change

The key movements of the indicative price change which includes revenue associated with both SoLR and NTS Exit Capacity charges are set out below:

	<b>% Movement</b>
Calculated "Base" revenue	4.7%
Pass through costs	-11.0%
Inflation impact (incl. true up)	6.2%
GD1 Legacy adjustments	-0.5%
K correction factor	0.3%
ADJ term (excl. inflation)	-3.2%
Impact of demand forecast	2.7%
<b>Total movement</b>	<b>-0.9%</b>

- Calculated "Base" revenue increases are largely due to the change in corporation tax rate, moving from 19% to 25% from April 2023.
- The reduction in pass through costs is attributable to decrease in SoLR claims in 23/24 and NTS costs, slightly offset by an increase in shrinkage costs due to continued high wholesale gas prices. The forecast that has been included in respect of SOLR claims is based on Ofgem's mind to position. Whilst SGN have included these SOLR forecasts in our indicative charges, we await formal direction from Ofgem in relation to any SOLR claims for revenue charging within 23/24.

## 2023/24 Indicative Notice of Charges- Southern Gas Networks

- Increases in inflation are a result of a true up of forecast 22/23 inflation compared to the forecast included within last years tariffs. This is in addition to a forecast of 23/24 inflation based on Office of Budget Responsibility (OBR) March 2022 forecast.
- The GD1 Legacy adjustment is a carry-over of adjustments from GD1 on a two year lag. As 23/24 is the third year of GD2, the adjustments have now dropped away. This has resulted in a reduction to 23/24 tariffs due to the previous year including true up legacy pass-through costs under-recovery.
- The adjustment term reduction, resulting from amendments to prior years forecasts, is primarily due to a reduction in shrinkage under-collection which was included in 22/23, as well as a reforecast of totex allowance underspend for 22/23. These are partially offset by a revised forecast of super tax deduction for 21/22 and 22/23.
- The impact of the demand forecast is higher than usual this year, this is due to a significant reduction in AQ/SOQs, particularly in the domestic load band. This reduction in demand is likely a result of the high gas prices the UK has experienced over the past 12 months.

### 3 Uncertainties Impacting April 2023 Final Transportation Charges

At this stage there are still significant uncertainties which will inevitably cause the actual change in the charges, which will be published on 1 February 2023, to be different from the indicative change.

The major uncertainties are:-

- The OBR October inflation forecast due to be published on 17 November;
- The extent of final SoLR claims;
- The cost of wholesale gas affecting shrinkage pass through costs,
- The level of future supply point capacity and numbers (aggregate demand);

### 4 LDZ Indicative Unit Charge Rates from 1 April 2023

Average LDZ Indicative Unit Rates Change	16.3%
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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 (72.8%) and Customer Charges (27.2%). Listed below are two sets of rates, one indicates SGN BP view and the other Ofgem's DD.

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

Charge Band (kWh/annum)	Capacity p/peak day kWh
Up to 73,200	0.2412
73,200 to 732,000	0.1915
>732,000	$2.5151 \times \text{SOQ}^{-0.2970}$
Subject to a minimum rate	0.0049

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

Charge Band (kWh/annum)	Commodity p/kWh
Up to 73,200	0.0406
73,200 to 732,000	0.0320
>732,000	$0.4844 \times \text{SOQ}^{-0.3129}$
Subject to a minimum rate	0.0010

**LDZ Customer Capacity Charges**

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.1117
73,200 to 732,000	0.0045
>732,000	$0.0936 \times \text{SOQ}^{-0.21}$

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

Supply Point Type	p/day
Non-monthly read supply points	38.5517
Monthly read supply points	41.0494

## 5 Supplier of Last Resort Charges

Due to the volatility in the gas market and significant increases in wholesale gas prices throughout 2021 and 2022, there has been a significant number of Suppliers failures. As Ofgem has an obligation to ensure gas continues flowing for all customers, they operate the Supplier of Last Resort (SoLR process). This allows other Suppliers to bid for the customer base of the failed Supplier and if successful and subject to approval from Ofgem, claim associated costs from the wider industry.

It is the responsibility of Scotland Gas Network to recover the costs incurred by the SoLR provider and to pass those onto the new Supplier as set out under Standard Special Condition A48 of the transportation licence. Scotland Gas Network collects these costs on a volumetric basis as guided by UNC modification 0797. The SoLR costs impacting 2023/24 charges are forecast to be £39.6m. These costs are a straight passthrough therefore only reflect the level of costs DNs need to subsequently pass onto the wider shipper community.

**LDZ Supplier of Last Resort Charges**

Charge Code	LRD & LRI
<b>Supply Point Volume Charge</b>	<b>Daily Rate p/p KWh</b>
Domestic	0.0194
I&C	-

**6 April 2023 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 twenty-one sites located within Southern Gas Networks.

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.

Site Name	GEMINI Reference	Distributed Gas Commodity Rate(p/kWh)
Albury	ALBROS	0.1166 (credit)
Poundbury Biomass	POUNOS	0.1161 (credit)
Portsdown Hill	POR	0.0214 (credit)
Apsley Farm	APSLOS	0.0991 (credit)
Blackpitts Brackley	HELMOS	0.1165 (credit)
Gorebasin Isle of Wight	WIGHOS	0.1165 (credit)
Ickneild Farm	IKNOS	0.0992 (credit)
St Nicholas Court Farm	NICHOS	0.1163 (credit)
Riverside AD Mitcham	MITCOS	0.1164 (credit)
Arla Aylesbury	ARLAOS	0.1166 (credit)
Ebbsfleet Farm	EBBSOS	0.1164 (credit)
Hill Farm Reading	HILLOS	0.0992 (credit)
Banbury PRS	BANBOS	0.0217 (credit)
Newton Longville	NETNOS	0.0217 (credit)
Kemsley	KEMYOS	0.0993 (credit)
Blaise Farm	BLAIOS	0.0992 (credit)
Court Lodge Farm	FAWKOS	0.1164 (credit)
Friday's Farm	FRITOS	0.1165 (credit)
Sheppey	SHEPOS	0.1164 (credit)
Dunsfold	DFLDOS	0.1164 (credit)

## 7 Methodology Changes

There are currently no amendments to the transportation charging methodology that will impact on charges for the period 1 April 2023 to 31 March 2024.

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

[pricing.team@sgn.co.uk](mailto:pricing.team@sgn.co.uk)

## 8 Distribution Network (NTS) Exit Capacity Charges (ECN)

Following the implementation of Uniform Network Code (UNC) modification 0195AV industry arrangements for the charging of NTS Exit Capacity costs changed on the 1 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).

## 9 Exit Capacity Indicative Charges (ECN) 1 April 2023

The change to charge levels from 1 April 2022 is forecast to be an average decrease of 10.8%.

Southern Gas will continue to recover the charges in line with DNPC06D (i.e. at individual Exit zone level). This provides the optimum cost-reflectivity as it will more closely reflect the charges which DN will be paying to the NTS, therefore better meets the relevant objective SSC A5(5)(a).

### 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 1 October 2022 for the period April to September 2023. The indicative October 2023 rates for the period October 2023 to March 2024, published on 30 April 2022.

Table 1 below shows the indicative charge rates set to recover the 2023/24 NTS Exit Capacity base allowance, 2021/22 and 2022/23 forecast K carried forward and cost allowance adjustments for Scotland.

**Table 1: April 2022 Indicative NTS Exit Capacity (ECN) Charge Rate**

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SO1	0.0191
SO2	0.0236
SE1	0.0217
SE2	0.0217