

# DN Charging Methodology Forum

## SGN December 2022 Mod 186 Summary

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**SGN**

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# Key Revenue Changes

## Updates

- **PIt** Updated inflation forecast reflects Nov 22 OBR forecast for 2022 onwards;
- **SLt** Updated shrinkage costs reflect 8 December position of wholesale gas prices and show a significant reduction from Septembers view. The latest forecasts show an avg p/therm of 233p for 22/23 compared to 236p include in the tariffs;
- **BRt** Updated forecast of prescribed (business) rates from Apr 23 following revaluation process. This has resulted in significant reduction in costs, particularly in our Southern network;
- **“Base” Rev** Includes re-profiled totex forecast for remaining years of GD2 and updated view of Ofgems RPEs and WACC;

## Risks and Sensitivities

- **SoLR charges** – the mod186 contains a forecast c.£52m for SoLR costs relating to 2023/24 tariffs. This forecast was based on Ofgem’s ‘minded to’ position published in Nov 22. However, since the mod186 was published we have received Ofgem’s final position which indicated claims of c.£60m.
- To adhere to SGNs five year tariff forecast obligation under the UNC, we have included a forecast for the first year of GD3 price control. As discussions with Ofgem regarding GD3 have not yet begun we have no basis to include any-forecasts, as a result SGN have taken the approach of rolling forward revenue levels from 2025/26. This approach does not represent SGNs view of GD3 revenues. These revenues could be materially different to the figures quoted and any use of 2026/27 tariff forecast should be done so recognising this uncertainty.
- Wholesale gas prices continue to be subject to extreme volatility.



# Southern Gas movements and price update

Southern	2021/22	2022/23	2023/24	2024/25	2025/26	Comments
<b>Sep-22 MOD186</b>	<b>696.2</b>	<b>951.0</b>	<b>933.4</b>	<b>848.5</b>	<b>849.0</b>	
Pass-through 18/19	0	0	-34.9	-19.1	-14.7	Reduction in shrinkage wholesale gas price and Business rate revaluation
"Base Rev" 18/19	0	0	13.6	24.6	30.9	Updated re-profiling of Totex for remaining years of GD2 and updated Ofgem view of WACC
Other revenue allowance	0	0	2.4	0.5	-1.5	Updated forecast for future years
Inflation	0	0	21.3	13.9	-4.3	Actuals to June22, OBR Nov 22 forecast for future years
K Correction term	0	0	5.6	0.0	0.0	Updated view of collected revenue and change in bad debt treatment
Legacy Revenue	0	0	-0.8	-1.1	-0.4	Updated true up on prior years true up
ADJ inflation	0	0	5.3	0.0	0.0	True up based on latest forecast
ADJ "Base Rev"	0	0	3.8	-3.8	-0.5	updated forecast of tax pool allocations rates, RPEs, revision of non-variant allowances as per Ofgem guidance
ADJ Shrinkage	0	0	-26.8	0.0	0.0	Updated forecast for 22/23
ADJ Pension Scheme Established Deficit Repair	0	0	0.5	0.0	0.0	Updated forecast for 22/23
ADJ Other Revenue	0	0	2.3	0.0	0.0	Updated forecast for 22/23
<b>Dec-22 MOD186</b>	<b>696.2</b>	<b>951.0</b>	<b>925.6</b>	<b>863.4</b>	<b>858.5</b>	

Price Change	2023/24	2024/25	2025/26
Total LDZ	18.0%	-4.5%	-0.5%
Total ECN	-13.4%	17.7%	-1.1%
Total SoLR	-76.8%	-100.0%	0.0%
Total distribution charges price change	1.1%	-6.7%	-0.6%

# Scotland Gas movements and price update

Scotland	2021/22	2022/23	2023/24	2024/25	2025/26	Comments
<b>Sep-22 MOD186</b>	<b>322.3</b>	<b>458.1</b>	<b>416.1</b>	<b>395.3</b>	<b>390.7</b>	
Pass-through 18/19	0	0	-11.0	-4.3	-2.2	Reduction in shrinkage wholesale gas price and Business rate revaluation
"Base Rev" 18/19	0	0	6.2	11.3	14.0	Updated re-profiling of Totex for remaining years of GD2 and updated Ofgem view of WACC
Inflation	0	0	11.1	7.5	-1.0	Actuals to June22, OBR Nov 22 forecast for future years
K Correction term	0	0	1.3	0.0	0.0	Updated view of collected revenue and change in bad debt treatment
Legacy Revenue	0	0	0.0	2.2	0.1	Updated true up on prior years true up
ADJ inflation	0	0	2.6	0.0	0.0	True up based on latest forecast
ADJ "Base Rev"	0	0	-1.1	-1.6	1.9	updated forecast of tax pool allocations rates, RPEs, revision of non-variant allowances as per Ofgem guidance
ADJ Shrinkage	0	0	-10.5	0.0	0.0	Updated forecast for 22/23
ADJ Pension Scheme Established Deficit Repair	0	0	0.3	0.0	0.0	Updated forecast for 22/23
ADJ Distribution Network Pension Deficit Charge	0	0	0.0	0.0	0.0	
ADJ NTS Exit	0	0	-0.2	0.0	0.0	
ADJ CDSP Costs	0	0	-0.3	0.0	0.0	
ADJ Other Revenue	0	0	1.7	0.0	0.0	Updated forecast for 22/23
<b>Dec-22 MOD186</b>	<b>322.3</b>	<b>458.1</b>	<b>417.5</b>	<b>410.5</b>	<b>402.6</b>	

Price Change	2023/24	2024/25	2025/26
Total LDZ	13.6%	1.0%	-2.0%
Total ECN	-46.2%	19.8%	-1.3%
Total SoLR	-76.8%	-100.0%	0.0%
Total distribution charges price change	(5.0%)	(1.7%)	(1.9%)