

2022/23 Indicative Statement

**150-day notice of transportation
charges effective from 1st April 2022**

Indicative Notice of LDZ Transportation Charges from 1 April 2022

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2022 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 2022 will be published by 31 January 2022, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

- The LDZ price change for 2022/23 is an increase of **+36.4%**. This represents a 38.2% increase in allowed revenue, combined with 0.3% forecast impact of capacity related changes and 1.5% prior year over collection impact.
- The exit capacity price change for 2022/23 is an increase of **56.5%**. This represents a 54.5% increase in allowed revenue (due to modification 678), combined with 0.3% forecast impact of capacity related changes and 2.2% under collection prior year impact.

Table 1 shows the year-on-year movement in allowed revenue. Exit capacity is a pass-through area where NGN receive an allowance to match total expenditure incurred. The table below splits allowances by NTS exit capacity and purely LDZ based revenue, this is to illustrate the large change in exit prices and its effect on our pricing structure. The biggest movement year on year relates to Supplier of Last Resort which is detailed further below.

Table 1: Year on Year £m movements (nominal)	LDZ		Exit		Total
	Revenue £m	Price Change Impact %	Revenue £m	Price Change Impact %	Revenue £m
21/22 Allowed Revenue	379.7		37.6		417.2
Supplier of Last Resort	104.4	27.5%		0.0%	104.4
Inflation	27.8	7.3%	2.1	5.6%	29.9
Shrinkage	18.2	4.8%		0.0%	18.2
GD1 Legacy true ups	5.3	1.4%	19.5	52.0%	24.8
Other base revenue changes	2.1	0.6%	(1.7)	(4.6%)	0.4
K correction	(4.9)	(1.3%)	0.6	1.5%	(4.3)
Tax allowance (super deduction)	(7.8)	(2.0%)		0.0%	(7.8)
22/23 Allowed Revenue	524.8	38.2%	58.0	54.5%	582.8
<i>Year on Year £ movement</i>	<i>145.1</i>		<i>20.5</i>		<i>165.6</i>
Prior year under/(over) recovery		(1.5%)		2.2%	
22/23 forecast SOQ impact		(0.3%)		(0.3%)	
Overall Price Change		36.4%		56.5%	

Base allowances:

- 22/23 allowances are based upon the final determination decisions published by Ofgem.
- An adjustment to Tier 2A expenditure allowances was made by NGN, under the agreed uncertainty mechanism, to account for the latest view of workload.

Pass through costs:

- Exit capacity allowances reflect the latest NTS published prices and booking allocations
- Shrinkage expenditure has been updated based on the latest view of prices, published by ICIS Herren. The shrinkage allowance for 21/22 is now forecast at £18m and £12m for 22/23 due to the significant increase in gas prices.

Supplier of Last Resort:

- Tonik, Yorkshire energy and Simplicity have already had claims approved by Ofgem and NGN will collect £347k on their behalf during 22/23.
- NGN's share of the preliminary estimate of SOLR costs for 2022/23 will be approximately £104m which accounts for 27.5% of our LDZ price increase.

Under/Over Recovery:

- NGN is currently forecasting to over recover £3.9m in collected revenue in 2021/22. This over collection will be returned to customers in formula year 2022/23.

SOQ/load factors change:

- Load factors are the relationship between Annual Quantities (AQ) and peak day demand. 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 0.3% increase in capacity levels in 2022/23. 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.

Inflation:

- Included in the above numbers is an assumed CPIH inflation rate of 3.6% for 22/23 based on the Office for Budget Responsibility (OBR) CPI forecast as published in October 2021.

3. Uncertainties around Indicative Transportation Charges

There is usually minimal movement between indicative and final prices. However, there are a number of factors that could result in further changes as outlined below:

1. Supplier of Last Resort

The £104m forecast that has been included in respect of SOLR claims is based on preliminary figures provided by Ofgem based on initial estimates of claims that they expect to receive between now and the end of the calendar year. Discussions with Ofgem in relation to the processing of SOLR claims are ongoing so the final amount and timing of these claims is yet to be determined. Whilst we have included these preliminary SOLR forecasts in our indicative charges for 2022/23, we await formal direction from Ofgem in relation to any SOLR claims for revenue charging within 2022/23.

2. **CMA Appeal**

Outcomes published by the Competitions and Markets Authority regarding NGN's appeal against Ofgem's final determination. Ofgem have confirmed they will publish a new PCFM inclusive of CMA findings during November, any impact of which will be included in our 60-day pricing notice.

3. **Cyber Costs Reopener**

Ofgem have approved our re-opener application to amend our cyber resilience costs the impact of which should be included in the next published PCFM and therefore included in our 60-day notice.

4. **Movements in capacity data**

Further AQ defects materialising albeit these are now minimal following recent years' focus by Xoserve.

5. **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 effective from 1st April 2022

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

Charge band (kWh/annum)	Current (21/22)	Effective from 1 st April 2022
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1834	0.2502
73,200 to 732,000	0.1576	0.2150
>732,000	$1.8492 \times \text{SOQ} - 0.2834$	$2.5225 \times \text{SOQ} - 0.2834$
Subject to a minimum rate of:	0.0047	0.0064
Minimum reached at SOQ of:	1,433,068,188	1,442,005,227

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

Charge band (kWh/annum)	Current (21/22)	Effective from 1 st April 2022
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0289	0.0394
73,200 to 732,000	0.0248	0.0338
>732,000	$0.3180 \times \text{SOQ} - 0.2940$	$0.4338 \times \text{SOQ} - 0.2940$
Subject to a minimum rate of:	0.0009	0.0012
Minimum reached at SOQ of:	464,830,475	502,398,860

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (21/22)	Effective from 1 st April 2022
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.0979	0.1335
73,200 to 732,000	0.0035	0.0048
>732,000	$0.0748 \times \text{SOQ} - 0.2100$	$0.1020 \times \text{SOQ} - 0.2100$

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

Type of Supply Point	Current (21/22)	Effective from 1 st April 2022
	Fixed p / day	Fixed p / day
Non-monthly read supply points	30.7638	41.9643
Monthly read supply points	32.7563	44.6822

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (21/22)	Effective from 1 st April 2022
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0191	0.0298
NE2	0.0215	0.0335
NE3	0.0215	0.0335
NO1	0.0199	0.0306
NO2	0.0177	0.0286

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 (21/22)		Effective from 1st April 2022	
		Go Live Date	Pence per kWh	Unit Rate: Charge or Credit	Pence per kWh	Unit Rate: Charge or Credit
HOWDOS	Howdon	17/02/2015	(0.0351)	Credit	(0.0562)	Credit
FOOTOS	Teeside	29/09/2015	(0.0008)	Credit	(0.0233)	Credit
LEEMOS	Leeming	22/12/2015	(0.0219)	Credit	(0.0102)	Credit
ASPAOS	Cumbria	31/05/2016	(0.0019)	Credit	(0.0232)	Credit
RIDGOS	Ridge Rd Sherburn in Elmet	21/07/2016	0.0174	Charge	0.0183	Charge
SHEROS	Agri Sherburn in Elmet	01/12/2016	(0.0258)	Credit	(0.0509)	Credit
GRAVOS	Gravel Pit	06/12/2016	0.0377	Charge	(0.0149)	Credit
NEWTOS	Emerald Biogas	08/12/2016	(0.0427)	Credit	(0.0680)	Credit
BURTOS	Burtos Agnes	18/01/2017	0.0388	Charge	0.0268	Charge
LANEOS	Lanes Farm	14/10/2019	(0.0386)	Credit	(0.0693)	Credit
SPALOS	Spaldington	22/10/2019	0.0331	Charge	0.0053	Charge
BRANOS	Bran Sands	28/11/2019	(0.0419)	Credit	(0.0719)	Credit
WARDOS	Wardley	09/12/2019	0.0283	Charge	(0.0078)	Credit
PARKOS	Park Farm	18/12/2019	0.2302	Charge	(0.0271)	Credit
PLAXOS	Plaxton Bridge	24/01/2020	0.0650	Charge	0.2775	Charge
HEDLOS	High Hedley	29/01/2020	0.1924	Charge	0.1214	Charge
MILLOS	Mill Nurseries	n/a	n/a	n/a	n/a	n/a