

2019/20 Indicative Statement

**150-day notice of transportation
charges effective from 1st April 2019**

Indicative Notice of LDZ Transportation Charges from 1 April 2019

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2019 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 2019 will be published by 31 January 2019, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

NGN's headline price change for 19/20 is **+8.1%**. This represents an LDZ price increase of **+8.0%** combined with an average exit capacity price increase of **+12.1%**.

As shown in the table below NGN's allowed revenue increases by £26m year on year - movements greater than £0.5m year on year are detailed below. Whilst this is an increase of +6.3% we need an overall price increase in our unit rates of +8.1% because of changes in capacity levels against which unit rates are charged.

<u>Notes</u>	18/19	19/20	Var	Var %	
1	PRICE CONTROL REVENUE	438.3	456.2	17.9	4.1%
	<u>Adjustments to Base Revenue</u>				
2	Cost of Debt	(12.7)	(21.6)	(8.9)	
	Pension deficit true ups	(3.7)	(4.2)	(0.5)	
3	FGO Allowance impact	(2.1)	(2.9)	(0.8)	
4	Totex incentive mechanism	(3.7)	(2.2)	1.5	
	Repex Tier 2a workload	(1.0)	(0.7)	0.3	
	Tax trigger events	(2.1)	(2.5)	(0.4)	
	Legacy GPCR1 Adjustments	2.1	2.5	0.3	
	Shrinkage allowance changes	(0.1)	(0.2)	(0.1)	
	Fuel poor allowance changes	0.6	0.6	0.0	
5	RPI true ups	(1.7)	1.1	2.8	
	ADJUSTED BASE REVENUES	414.0	426.2	12.2	2.9%
6	Non Controllable Cost True Ups	(7.9)	(2.9)	5.0	
	Network Innovation Allowance	2.6	2.7	0.1	
	<u>Incentives</u>				
	NTS Exit Capacity	1.9	2.2	0.2	
	Customer Satisfaction	2.1	2.0	(0.0)	
	Stakeholder Engagement	1.3	0.9	(0.5)	
	Shrinkage	0.9	0.8	(0.1)	
7	Environmental Emissions	5.0	4.1	(0.9)	
8	Discretionary Reward Scheme	0.0	0.9	0.9	
	Total Incentives	11.2	10.9	(0.3)	
9	Under/(Over) Collections "K"	(10.4)	(1.4)	9.1	
	TOTAL ALLOWED REVENUE	409.6	435.5	26.0	6.3%
	AQ/SOQ Change Impact - impact from 18/19 over collection				(0.2%)
10	AQ/SOQ Change Impact - forecast during 19/20				2.0%
	OVERALL PRICE CHANGE				8.1%

Note 1: Price Control Revenue - this is the allowed revenue as determined by Ofgem in the price control settlement (Final Proposal's data). The shape of NGN's allowed revenue reduced in the middle years of RII0-GD1 but increases again in the last 2 years of the price control period.

Note 2: Cost of Debt - Ofgem's final proposals included a cost of debt allowance based on an IBOXX index 10-year trailing average of 2.92%. NGN's forecast for the average index applicable for 19/20 (based on a projection as at 31st October 2018) is 1.59% which results in a revenue reduction of £21.6m when compared with the original allowance.

Note 3: FGO Allowance – this represents the change in allowances because of the FGO programme (Funding, Governance and Ownership). As our share of Xoserve has reduced so has our share of the costs.

Note 4: Totex Incentive Mechanism – the adjustments within revenue relate to Totex Outperformance from 2 years before. When we outperform Totex we have to return 36% back to customers. Our outperformance vs. allowances reduced by 2% year on year which therefore results in less money being returned.

Note 5: RPI True ups - this is "trueing" up any differences between forecast and actual RPI. There is a 2-year lag for this adjustment so the £1.1m adjustment in 19/20 relates to differences arising in 17/18. Prices were set in advance for 17/18 using a HM Treasury forecast RPI of +3.4% compared to the actual RPI of 3.7%.

Note 6: Non-Controllable – GDN's can recover the full cost of areas that are classified as non-controllable (rates, Licence fee, NTS pension deficit, shrinkage and exit costs). When actual costs vary from the original allowance GDN's can adjust for this difference. The movement year on year of +£5m largely relates to the increase in rates costs in 17/18 after the most recent valuation exercise was completed.

Note 7: Environmental Emissions Incentive – our outperformance vs. volumes allowance reduced year on year by 9 Gwh which resulted in lower incentive income year on year. This was due to high demands experienced over the winter and the associated impact on average system pressures within the network.

Note 8: Discretionary Reward Scheme – NGN was awarded £900k through the DRS scheme. This recognises our commitment to local communities and the work that we have undertaken over the last three years to help address a range of social, carbon monoxide safety and environmental issues.

Note 9: 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 and peak day demand must 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 18/19 we returned income of £10.4m due to over collection during 16/17. During 19/20 we will return £1.4m due to over collection during 17/18. Both years over collection is due to changes in capacity levels during the year after prices have been set.

Note 10: 2019 Load Factors – load factors are the relationship between Annual Quantities (AQ) and peak day demand (also referred to as SOQ/Supply Offtake Quantity). 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 -2% reduction in capacity levels which results in 2% added to the level of price changed required to collect the allowed revenue amount for 19/20.

Inflation: Included in the above numbers is an assumed inflation rate of 3.1% based on forecasts compiled by HM Treasury and published in its August 2018 Forecasts for the UK Economy document. When we publish our 60-day notice this will be updated to reflect RPI forecasts from the corresponding November report.

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 19/20 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.

We have estimated the new AQ and SOQ capacity levels that will form the basis of charging during 19/20. The snapshot of capacity data to be applied for 19/20 charging purposes will be taken in December 2018 and any significant variations adjusted for in 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 1st April 2019

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

Charge band (kWh/annum)	Current (18/19)	Effective from 1 st April 2019
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1962	0.2120
73,200 to 732,000	0.1686	0.1822
>732,000	$1.9777 \times \text{SOQ} - 0.2834$	$2.1367 \times \text{SOQ} - 0.2834$
Subject to a minimum rate of:	0.0051	0.0055
Minimum reached at SOQ of:	1,361,606,605	1,370,381,312

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

Charge band (kWh/annum)	Current (18/19)	Effective from 1 st April 2019
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0309	0.0334
73,200 to 732,000	0.0265	0.0286
>732,000	$0.3401 \times \text{SOQ} - 0.294$	$0.3674 \times \text{SOQ} - 0.294$
Subject to a minimum rate of:	0.0010	0.0011
Minimum reached at SOQ of:	408,231,875	383,858,937

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (18/19)	Effective from 1 st April 2019
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1047	0.1131
73,200 to 732,000	0.0038	0.0041
>732,000	$0.0799 \times \text{SOQ} - 0.2100$	$0.0863 \times \text{SOQ} - 0.2100$

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

Type of Supply Point	Current (18/19)	Effective from 1 st April 2019
	Fixed p / day	Fixed p / day
Non-monthly read supply points	32.89	35.54
Monthly read supply points	35.03	37.85

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (18/19)	Effective from 1 st April 2019
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0058	0.0073
NE2	0.0005	0.0012
NE3	0.0005	0.0012
NO1	0.0027	0.0018
NO2	0.0061	0.0071

Appendix 2 – DN Entry Indicative Unit Rates 19/20

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.

Site	Xoserve Site Name	Current		Effective from 1 st April 2019	
		Unit rate	Charge or Credit	Unit rate	Charge or Credit
Howdon	HOWDOS	(0.03205)	Credit	(0.03457)	Credit
Leeming	LEEMOS	0.01354	Charge	(0.02687)	Credit
Teeside	FOOTOS	(0.02022)	Credit	(0.02185)	Credit
Cumbria	ASPAOS	(0.01694)	Credit	(0.02314)	Credit
Agri Sherburn in Elmet	SHEROS	(0.01106)	Credit	(0.03380)	Credit
Ridge Road Sherburn in Elmet	RIDGOS	0.03273	Charge	0.03040	Charge
Burtos Agnes	BURTOS	0.08171	Charge	0.03415	Charge
Emerald Biogas	NEWTOS	(0.03860)	Credit	(0.04507)	Credit
Gravel Pit	GRAVOS	0.01863	Charge	0.00801	Charge
Mill Nursery	MILLOS	0.02537	Charge	0.02537	Charge

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