

Scotland Gas Networks Indicative Notice of Change to Transportation Charges from 1 April 2022



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1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2022, in line with our Gas Transporter Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1 April 2022 will be published by 1 February 2022, in accordance with the two months' notice requirement within the UNC.

2 Indicative changes to Distribution Transportation Charges on 1 April 2022

The average change to charge levels from 1 April 2022 is forecast to be an increase of 39.2%.

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 NTS Exit Capacity charges are set out below:

| | % Movement |
|--|-------------------|
| "Base" revenue | 1.2% |
| Pass through costs (primarily SoLR) | 23.1% |
| Inflation true up 2021/22 | 2.7% |
| Inflation impact 2022/23 | 3.6% |
| GD1 legacy adjustments | 6.3% |
| K' correction/Adjustment term | 2.2% |
| Impact of demand forecast | 0.1% |
| Total movement | 39.2% |

- The £75m 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 31 December 2021. 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.
- These numbers do not currently include the remedy of the Competition and Markets Authority (CMA) final determination of the RIIO 2 appeals, published on 28 October 2021. This will be incorporated into our final charges as set out by the CMA;

- Latest forecast figures include the impact of wholesale gas prices on shrinkage costs from 18 October 2021,
- Inflation impact includes 2.7% “true up” of 2021/22 and 3.6% inflation forecast for 2022/23.
- Legacy adjustment contains a 5% increase in NTS capacity bookings due to the change in charging methodology on a two year lagged basis, relating to costs for 2020/21.

3 Uncertainties Impacting April 2022 Final Transportation Charges

At this stage there are still significant factors and uncertainties which will inevitably cause the actual change in the charges, which will be published on 1 February 2022, to be different from the indicative change.

These major uncertainties include:-

- Final forecast of bad debt in relation to the non-collection of transportation charges;
- The extent of SoLR claims;
- The cost of wholesale gas affecting shrinkage pass through costs,
- The level of future supply point capacity and numbers (aggregate demand);
- NTS price volatility and potential Revenue Recovery Charge (RRC)

4 LDZ Indicative Unit Charge Rates from 1 April 2022

| | |
|--|-------|
| Average LDZ Indicative Unit Rates Change | 38.3% |
|--|-------|

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 (71.2%) and Customer Charges (28.8%). 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 Business Plan |
|---------------------------|---------------------------------------|
| Up to 73,200 | 0.2627 |
| 73,200 to 732,000 | 0.2366 |
| >732,000 | $1.5268 \times \text{SOQ}^{-0.2338}$ |
| Subject to a minimum rate | 0.0116 |

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

| Charge Band (kWh/annum) | Commodity p/kWh Business Plan |
|---------------------------|--------------------------------------|
| Up to 73,200 | 0.0387 |
| 73,200 to 732,000 | 0.0345 |
| >732,000 | $0.2820 \times \text{SOQ}^{-0.2597}$ |
| Subject to a minimum rate | 0.0017 |

LDZ Customer Capacity Charges

| Charge Band (kWh/annum) | Capacity p/peak day kWh/day Business Plan |
|-------------------------|---|
| Up to 73,200 | 0.1475 |
| 73,200 to 732,000 | 0.0048 |
| >732,000 | $0.0993 \times \text{SOQ}^{-0.21}$ |

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

| Supply Point Type | p/day Business Plan |
|--------------------------------|---------------------|
| Non-monthly read supply points | 40.7565 |
| Monthly read supply points | 43.3969 |

5 April 2022 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-three sites located within Scotland Gas Networks. Listed below are two sets of rates, one indicates SGN BP view and the other Ofgem's DD.

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) |
|----------------------------|------------------|---------------------------------------|
| Aberdeen Conference Centre | TECAOS | 0.1102 (credit) |
| Crofthead Farm | CROFOS | 0.1268 (credit) |
| Beyside Port Gordon | POG2OS | 0.1102 (credit) |
| Grissan Girvan | GIR1 / GIR2 | 0.0362 (credit) |

| | | |
|---------------------------------|--------|-----------------|
| Mains of Keithnick | COUPOS | 0.1264 (credit) |
| Grissan Riverside | RIVEOS | 0.1104 (credit) |
| Charlesfield St Boswells | BOSWOS | 0.1266 (credit) |
| Dunnswood Road Cumbernauld | DUNNOS | 0.1267 (credit) |
| East Memus Farm | CARNOS | 0.1268 (credit) |
| Foveran / Savock Farm | FAVROS | 0.1266 (credit) |
| Lockerbie Biomethane | TBC | 0.1103 (credit) |
| Moray Hill Farm / Tornagrain | MORYOS | 0.1101 (credit) |
| Peacehill Farm | PEACOS | 0.1102 (credit) |
| Peterhead | DOWNOS | 0.1103 (credit) |
| Portside Port Gordon | POG1 | 0.1102 (credit) |
| Tambowie Farm | TAMBOS | 0.1267 (credit) |
| Skeddoway Farm | SKEDOS | 0.1266 (credit) |
| Strathcathro | STRCOS | 0.1102 (credit) |
| Tornagrain 2 | MOR2 | 0.0362 (credit) |
| Oban LNG Medium Pressure | OBIG | 0.0931 (credit) |
| Campbeltown LNG Low Pressure | CAM1 | 0.2063 (credit) |
| Thurso LNG Medium Pressure | THU1 | 0.1010 (credit) |
| Wick LNG Medium Pressure | WIC1 | 0.1034 (credit) |

6 Methodology Changes

There are currently no amendments to transportation charging methodology that will impact on charges for the period 1 April 2022 to 31 March 2023.

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

pricing.team@sgn.co.uk

7 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 DNs will invoice gas shippers in line with DNPC06 ("Proposals for LDZ Charges to Recover NTS Exit Capacity Charges).

This years' tariffs will include NTS costs for 2022/23 and the six-month under-recovery of costs related to October 2020 to March 2021

8 Exit Capacity Indicative Charges (ECN) 1 April 2022

The change to charging levels from 1 April 2022 is forecast to be an increase of 47.9%.

Whilst NTS charging methodology has changed to a postage stamp as explained above, Scotland 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 DNs 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 2020 for the period April to September 2022. The indicative October 2022 rates for the period October 2022 to March 2023, published on 30 April 2022.

Table 1 below shows the indicative charge rates set to recover the 2022/23 NTS Exit Capacity base allowance, 2020/21 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) |
|-----------|--------------------------------------|
| SC01 | 0.0355 |
| SC02 | 0.0369 |
| SC04 | 0.0363 |
| LC | 0.0362 |
| LO | 0.0362 |
| LT | 0.0362 |
| LW | 0.0362 |
| LS | 0.0393 |