

Issued 3 November 2011

Indicative Notice of LDZ Transportation Charges from 1 April 2012

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2012 for the Northern Gas Networks Limited (NGN) in line with the GT Licence requirement to provide 150 days' notice of such proposals. The definitive notice of distribution transportation charges effective from 1 April 2012 will be published by 31 January 2012, in line with the 60 days' notice requirements within the Uniform Network Code.

2. Indicative Distribution Charges

The indicative change in the distribution transportation charges from 1 April 2012 is an increase of approximately 8.0%. As changes to the charging methodology will be implemented in the year, including the revised System Charges and introduction of NTS Exit Capacity Charges, the indicative price change will not be applied uniformly across the various charge bands and categories. Indicative unit charges and charging functions are provided in Appendix 1.

These charge levels have been based on bringing charges in line with the forecast price control allowed revenue for the period April 2012 to March 2013. There is uncertainty around the levels of change that will be necessary at April; the figures provided are the current projections and may increase or decrease before the final charges are published in January 2012.

3. Methodology Changes

Following the decision by Ofgem to uphold the proposals within DNPC08, the LDZ System Charges charging methodology has been modified so that they are now based on network characteristics specific to NGN, having previously been based on a methodology common to all Gas Distribution Networks.

From October 2012 LDZ Exit Capacity NTS Charges will be charged from the Distribution Networks rather than directly from the NTS. The level of the charge will be set to reflect the forecast average unit NTS Charges for capacity at the NTS/LDZ Offtakes which make up that Exit Zone for the forthcoming year. Indicative unit charges by Exit Zone are included within Appendix 1.

4. Reasons for the Change in the Indicative Transportation Charges

The indicative price increase of 8.0% can be broken down into the following elements:

- 2012/13 Core Allowed Revenue reflects a 1.2% increase on 2011/12 (constant prices), as defined by the latest price control settlement agreed with effect from April 2008. Year-on-year RPI inflation is currently forecast at 5.2% and so the total increase on Core Allowed Revenue is 6.4%;
- SOQs have reduced by 2.0% in October 2011 and have been forecasted to reduce by a further 3.0% in October 2012. This decrease in the capacity of the network requires a corresponding increase in unit transportation rates in order to maintain the same level of revenue. As Capacity Charges represent around 97.0% of all transportation revenue and as the SOQ reductions impact half way through the regulatory year, this impacts the price increase by just less than 1.5%;

- The relative increase in Pass Through Costs and Incentives on prior year Final Allowed Revenue is around 0.2%, largely due to increases in the Shrinkage Allowances and the associated financial consequences of Exit Reform, offset by lower activity within the Mains and Services Replacement Incentive.

5. Uncertainties around Indicative Transportation Charges

There are a number of factors which could lead the figures quoted above to vary from the definitive charges implemented in April 2012:

- The calculation of Allowed Revenue is dependent on RPI inflation to ensure all revenue is disclosed in current year prices. The inflation adjustment factor is the year-on-year movement of RPI for the months July to December compared to the same months in the previous year. Forecasted RPI figures have been used for October to December 2011 and these may vary to the actual figures, particularly given the volatility of the RPI inflation measure at the present time;
- The definitive Mains and Services Replacement Incentive position for 2011/12 will not be known until July 2012. This, together with any changes to the forecast incentive position for the subsequent price control year, will affect the Allowed Revenue for 2011/12 and hence the under or over recovery and the price change required in 2012/13;
- Changes in wholesale gas prices will impact the Shrinkage Allowance;
- The revenue recovery levels will also depend on several other forecasts. These forecasts will be updated before 31 January 2012 and will be taken into account in determining the definitive level of charges to apply from April 2012.

If you have any queries or require any further details on this notice please contact Will Guest (wguest@northerngas.co.uk).

Appendix 1 - Indicative unit charges and charging functions effective 1 April 2012

LDZ System Charges - Directly Connected Supply Points and Connected Systems

Charge band (kWh/annum)	Capacity p / peak day kWh / day	Commodity p / kWh
Up to 73,200	0.1621	0.0253
73,200 to 732,000	0.1394	0.0271
>732,000	$1.6342 \times \text{SOQ}^{-0.2834}$	$0.2795 \times \text{SOQ}^{-0.294}$

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Capacity p / peak day kWh / day
Up to 73,200	0.0860
73,200 to 732,000	0.0031
>732,000	$0.0656 \times \text{SOQ}^{-0.2100}$

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

Type of Supply Point	Fixed p / day
Non-monthly read supply points	27.0619
Monthly read supply points	28.8147

NTS Exit Capacity Charges recovered through the new LDZ ECN Charge – effective 1 October 2012

Exit Zone	Capacity p / peak day kWh / day
NO1	0.0084
NO2	0.0148
NE1	0.0038
NE2	0.0001

CSEP administration charge

Charge per supply point	0.1012 pence per day (£0.37 per annum)
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