

# 2020/21 Indicative Statement

**150-day notice of transportation  
charges effective from 1<sup>st</sup> April 2020**

# Indicative Notice of LDZ Transportation Charges from 1 April 2020

## 1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2020 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 2020 will be published by 31 January 2020, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

## 2. Indicative Distribution Charges

NGN's headline price change for 20/21 is **+1.0%**. This represents an LDZ price increase of **+1.5%** combined with an average exit capacity price increase of **-55.9%**.

As shown in the table below NGN's allowed revenue increases by +£4.9m year on year - movements greater than £0.5m year on year are detailed below. Whilst this is an increase of +1.1% we need an overall price increase in our unit rates of +1.0% because of forecast changes in capacity levels against which unit rates are charged.

| Notes  | 19/20        | 20/21        | Var          | Var %       |
|--|--------------|--------------|--------------|-------------|
| 1 <b>PRICE CONTROL REVENUE</b>                           | <b>456.8</b> | <b>473.1</b> | <b>16.3</b>  | <b>3.6%</b> |
| <b>Adjustments to Base Revenue</b>                       |              |              |              |             |
| 2 Cost of Debt   | (21.6)       | (28.2)       | (6.6)        |             |
| 3 RPI true ups   | 1.1          | (0.3)        | (1.5)        |             |
| 4 Tax trigger events                                     | (2.5)        | (3.5)        | (1.0)        |             |
| FGO Allowance impact                                     | (2.9)        | (3.4)        | (0.5)        |             |
| Repex Tier 2a workload                                   | (0.7)        | (0.9)        | (0.2)        |             |
| Pension Deficit True Ups                                 | (4.2)        | (4.3)        | (0.1)        |             |
| Legacy GDPCR1 Adjustments                                | 2.5          | 2.8          | 0.3          |             |
| 5 Totex incentive mechanism                              | (2.2)        | (0.6)        | 1.6          |             |
| Tax clawback adjustments                                 | 0.0          | 0.0          | 0.0          |             |
| Shrinkage allowance changes                              | (0.2)        | (0.3)        | (0.0)        |             |
| Exit allowance changes                                   | 0.0          | 0.0          | 0.0          |             |
| Fuel poor allowance changes                              | 0.6          | 0.7          | 0.0          |             |
| <b>ADJUSTED BASE REVENUES</b>                            | <b>426.7</b> | <b>435.0</b> | <b>8.3</b>   | <b>1.9%</b> |
| 6 Non Controllable Cost True Ups                         | (2.9)        | (6.7)        | (3.8)        |             |
| 7 Supplier of Last Resort Claims                         | 0.7          | 0.2          | (0.5)        |             |
| Network Innovation Allowance                             | 2.7          | 2.7          | 0.1          |             |
| <b>Incentives</b>  |              |              |              |             |
| 8 Discretionary Reward Scheme                            | 0.9          | 0.0          | (0.9)        |             |
| NTS Exit Capacity  | 2.2          | 2.0          | (0.2)        |             |
| Stakeholder Engagement                                   | 0.9          | 0.8          | (0.0)        |             |
| Customer Satisfaction                                    | 2.0          | 2.1          | 0.1          |             |
| Shrinkage  | 0.8          | 1.0          | 0.2          |             |
| Environmental Emissions                                  | 4.1          | 4.1          | 0.0          |             |
| <b>Total Incentives</b>                                  | <b>10.9</b>  | <b>10.1</b>  | <b>(0.8)</b> |             |
| 9 Under/(Over) Collections "K"                           | (1.2)        | 0.5          | 1.7          |             |
| <b>TOTAL ALLOWED REVENUE</b>                             | <b>436.9</b> | <b>441.9</b> | <b>4.9</b>   | <b>1.1%</b> |
| AQ/SOQ Change Impact - impact from 19/20 over collection |              |              |              | (2.1%)      |
| 10 AQ/SOQ Change Impact - forecast during 20/21          |              |              |              | 2.0%        |
| <b>OVERALL PRICE CHANGE</b>                              |              |              |              | <b>1.0%</b> |

**Note 1: Price Control Revenue** - this is the allowed revenue as determined by Ofgem in the price control settlement (Final Proposal data). The shape of NGN's allowed revenue reduced in the middle years of RIG 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 20/21 (based on a projection as at 31<sup>st</sup> October 2019) is 1.10% which results in a revenue reduction of £28.2m when compared with the original allowance.

**Note 3: 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 (£0.3m) adjustment in 20/21 relates to differences arising in 18/19. Prices were set in advance for 18/19 using a HM Treasury forecast RPI of +3.3% compared to the actual RPI of 3.1%.

**Note 4: Tax Trigger Events** - During 20/21 the tax trigger adjustment of (£3.5m) represents the reduction in the corporation tax rate to 17% and the change of the special rate capital allowance pool from 8% to 6%.

**Note 5: Totex Incentive Mechanism** - the adjustments within revenue relate to Totex Out performance from 2 years before. When we outperform Totex we must return 36% back to customers. Our out performance vs. allowances reduced by 2.5% year on year to 9.3% which therefore results in less money being returned.

**Note 7: Supplier of Last Resort Claims** - During 20/21 we have been notified of a claim for Together Energy/ One Select of £235k as part of the wider £4.8m total industry claim.

**Note 8: Discretionary Reward Scheme** - NGN was awarded £900k through the DRS scheme in 19/20 which was the 2<sup>nd</sup> and final window during the RIG GD1 period. As such there will be no further awards during the RIG GD1 period.

**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 under collected by £0.5m which has been added to allowed revenue in 20/21.

Please note that during 19/20 we forecast to over collect revenue by c. £12m due to changes in the Annual Quantities used within the charging base data - this will impact on our price change needed for 20/21 as revenue will be higher than needed in 19/20.

**Note 10: 2019 Load Factors** - Load factors are the relationship between Annual Quantities (AQ) and peak day demand (also referred to as SOQ/Supply Gftake 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 change required to collect the allowed revenue amount for 19/20. Further analysis between this and our 60-day publication will confirm this position.

**Inflation:** Included in the above numbers is an assumed inflation rate of 2.85% based on forecasts compiled by HM Treasury and published in its August 2019 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 20/21 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 20/21. The snapshot of capacity data to be applied for 20/21 charging purposes will be taken in December 2019 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:

**Jon Trapps**  
**Pricing and Revenue Manager**

Northern Gas Networks  
1100 Century Way  
Thorpe Park  
Leeds  
LS15 8TU  
0113 397 5354  
jtrapps@northerngas.co.uk

## **Appendix 1 - Indicative Unit Charges and Charging Functions effective 1<sup>st</sup> April 2020**

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

| Charge band (kWh/annum)       | Current (19/20)                              | Effective from 1 <sup>st</sup> April 2020                      |
|-------------------------------|--|--|
|                               | Capacity p / peak day kWh / day              | Capacity p / peak day kWh / day                                |
| Up to 73,200                  | 0.2113                                       | <b>0.2144</b>  |
| 73,200 to 732,000             | 0.1816                                       | <b>0.1842</b>  |
| >732,000                      | $2.1302 \times \text{SOQ}^{\wedge} - 0.2834$ | <b><math>2.1612 \times \text{SOQ}^{\wedge} - 0.2834</math></b> |
| Subject to a minimum rate of: | 0.0055                                       | <b>0.0056</b>  |
| Minimum reached at SOQ of:    | 1,355,727,843                                | <b>1,338,753,243</b>   |

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

| Charge band (kWh/annum)       | Current (19/20)                             | Effective from 1 <sup>st</sup> April 2020                      |
|-------------------------------|---|--|
|                               | Commodity p / kWh                           | Commodity p / kWh  |
| Up to 73,200                  | 0.0333                                      | <b>0.0338</b>  |
| 73,200 to 732,000             | 0.0285                                      | <b>0.0289</b>  |
| >732,000                      | $0.3663 \times \text{SOQ}^{\wedge} - 0.294$ | <b><math>0.3716 \times \text{SOQ}^{\wedge} - 0.2940</math></b> |
| Subject to a minimum rate of: | 0.0011                                      | <b>0.0011</b>  |
| Minimum reached at SOQ of:    | 379,963,860                                 | <b>398,990,590</b>   |

### **LDZ Customer Capacity Charges**

| Charge band (kWh/annum) | Current (19/20)                              | Effective from 1 <sup>st</sup> April 2020                      |
|-------------------------|--|--|
|                         | Capacity p / peak day kWh / day              | Capacity p / peak day kWh / day                                |
| Up to 73,200            | 0.1128                                       | <b>0.1144</b>  |
| 73,200 to 732,000       | 0.0041                                       | <b>0.0042</b>  |
| >732,000                | $0.0861 \times \text{SOQ}^{\wedge} - 0.2100$ | <b><math>0.0874 \times \text{SOQ}^{\wedge} - 0.2100</math></b> |

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

| Type of Supply Point           | Current (19/20) | Effective from 1 <sup>st</sup> April 2020 |
|--------------------------------|-----------------|---|
|                                | Fixed p / day   | Fixed p / day                             |
| Non-monthly read supply points | 35.4371         | <b>35.9524</b>                            |
| Monthly read supply points     | 37.7323         | <b>38.2809</b>                            |

## NTS Exit Capacity Charges recovered through the LDZ ECN Charge

| Exit Zone | Current (19/20)                 | Effective from 1 <sup>st</sup> April 2020 |
|-----------|---------------------------------|---|
|           | Capacity p / peak day kWh / day | Capacity p / peak day kWh / day           |
| NE1       | 0.0074                          | <b>0.0033</b>                             |
| NE2       | 0.0009                          | <b>0.0003</b>                             |
| NE3       | 0.0009                          | <b>0.0003</b>                             |
| NO1       | 0.0017                          | <b>0.0008</b>                             |
| NO2       | 0.0072                          | <b>0.0034</b>                             |

## Appendix 2 – DN Entry Indicative Unit Rates 20/21

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 <sup>st</sup> April 2020 |                  |
|---------------------------------|-------------------|-----------|------------------|---|------------------|
|                                 |                   | Unit rate | Charge or Credit | Unit rate                                 | Charge or Credit |
| Howdon                          | HOWDOS            | (0.03437) | Credit           | <b>(0.03287)</b>                          | <b>Credit</b>    |
| Lee mining                      | LEEMOS            | (0.02662) | Credit           | <b>(0.03706)</b>                          | <b>Credit</b>    |
| Teeside                         | FOOTOS            | (0.02164) | Credit           | <b>(0.02268)</b>                          | <b>Credit</b>    |
| Cumbria                         | ASPAOS            | (0.02289) | Credit           | <b>(0.01752)</b>                          | <b>Credit</b>    |
| Agriculture in Elmet            | SHEROS            | (0.03355) | Credit           | <b>(0.03362)</b>                          | <b>Credit</b>    |
| Ridge Road Agriculture in Elmet | RIDGOS            | 0.03047   | Charge           | <b>0.02543</b>                            | <b>Charge</b>    |
| Burtos Agnes                    | BURTOS            | 0.03422   | Charge           | <b>0.03426</b>                            | <b>Charge</b>    |
| Emerald Bogas                   | NEWTOS            | (0.04482) | Credit           | <b>(0.04400)</b>                          | <b>Credit</b>    |
| Gravel Pit                      | GRAVOS            | 0.00826   | Charge           | <b>(0.00353)</b>                          | <b>Credit</b>    |
| Lanes Farm                      | LANEOS            | (0.02928) | Credit           | <b>(0.02680)</b>                          | <b>Credit</b>    |
| Spaldington                     | SPALOS            | 0.03422   | Charge           | <b>0.03770</b>                            | <b>Charge</b>    |

The following sites are estimated to go live in the next 3 months: Bran Sands, Wardley, Park Farm, Flaxton Bridge, High Hedley. Rates will be provided when gas starts to flow.