

2023/24 Indicative Statement

**150-day notice of transportation
charges effective from 1st April 2023**

Indicative Notice of LDZ Transportation Charges from 1 April 2023

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2023 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 2023 will be published by 31 January 2023, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

- The LDZ price change for 2023/24 is an increase of **+16%**. This represents a +10.1% increase in revenue. An assumed drop in demand of 5.3% has been included within the unit rates to ensure we collect Revenue of £522m.
- The exit capacity price change for 2023/24 is a decrease of **(29.8%)**. This represents a +33.1% decrease in revenue. An assumed drop in demand of 5.3% has been included within the unit rates to ensure we collect Revenue of £38m.

Table 1 shows the year-on-year movement in Allowed Revenue. Prices are set to establish unit rates on 3 separate income streams as illustrated below for LDZ, Exit and Supplier of Last Resort charges.

Table 1: Year on Year £ movements	LDZ	Exit	SOLR	Total
22/23 Allowed Revenue (nominal)	448.3	56.5	95.9	600.7
Inflation	25.4			25.4
Corporation tax rate increase to 25%	23.6			23.6
Pension deficit catch up from GD1	11.7			11.7
Shrinkage	2.5			2.5
Other changes	(0.6)	0.4		(0.2)
Totex changes	(17.3)			(17.3)
GD1 Exit Legacy true ups		(13.1)		(13.1)
Update to NTS Exit rates from Oct 22		(6.1)		(6.1)
Reduction in SOLR claims			(71.9)	(71.9)
23/24 Allowed Revenue (nominal)	493.7	37.8	24.0	555.5
<i>Year on Year £ movement</i>	<i>45.4</i>	<i>(18.7)</i>	<i>(71.9)</i>	<i>(45.2)</i>
<i>Year on Year % movement</i>	<i>10.1%</i>	<i>(33.1%)</i>	<i>(75.0%)</i>	<i>(7.5%)</i>
Price Change Breakdown				
Year on Year AR % movement	10.1%	(33.1%)	(75.0%)	(7.5%)
Capacity changes / under/over collection	5.8%	3.4%		
Overall Price Change	16.0%	(29.8%)		

Supporting notes for the largest Allowed Revenue movements above:

- **Shrinkage:** Allowances have been calculated based on the latest prices available; this assumes a price per therm of £2.46 for 22/23 and £3.24 for 23/24. Prices remain volatile and can move significantly from week to week; the 150-day notice was prepared with forecasts from 28 October.
- **Inflation:** Included in the above numbers is an assumed CPIH inflation rate of 7.7% for 22/23 and 3.3% for 23/24 based on the Office for Budget Responsibility (OBR) forecasts compiled in March 2022.
- **Tax:** As per the latest government update on 14 October the Corporation Tax rate will increase from 19% to 25% from 1 April 2023. The above movement represents the increased tax charge.
- **Pension Deficit:** NGN allowances from 23/24 to 25/26 include revenue allowances to cover additional costs paid into the scheme during RIIO-GD1.
- **Totex Changes:** the largest reduction of £21m is for outperformance of Totex allowances in 21/22 which will be returned to customers during 23/24 via the Totex sharing mechanism.
- **GD1 Exit Legacy true ups:** The large movement year on year is due to 22/23 allowances including GD1 true ups.
- **Supplier of Last Resort:** within this update is an assumed £24m of Supplier of Last Resort claims.

3. Uncertainties around Indicative Transportation Charges

There is usually minimal movement between indicative and final prices. However, there remains uncertainty on the following areas at the time of publication:

- Supplier of last resort (SOLR) - Ofgem will provide the value of submitted claims for regulatory year 2023/24 by the end of October. Within the 150-day notice is an assumed value of £24m for expected claims, any differences will be included in the 60-day notice.
- NGN may submit further updates on shrinkage allowances to be included in the 60-day notice to reflect the very latest gas price Heren forecast.
- The dry run Annual Iteration Process (AIP) used to generate the 150-day notice, uses inflation forecast data as published in March 2022 OBR forecasts. Ofgem have confirmed that the OBR forecast published on 31 October will be used in the 60-day notice. Any material differences may result in a republication of the 150-day notice.
- 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 5.2% decrease in capacity levels in 2023/24 largely driven by domestic customers. A final snapshot of capacity data will be available during the first week of December.
- Ofgem are yet to fully incorporate the detailed split between variant and non-variant allowances in the Price Control Financial Model (PCFM) as this requires a consultation exercise. This is not expected to generate a material difference and will be factored into 2023 Annual Iteration Process.
- In the current climate we have seen higher volumes of meter reading updates which may have contributed to the change in Annual Quantities. We may see further activity impacting AQ data before finalising the 60-day notice at the end of January.

4. Further Information

If you have any queries or require any further details on this notice, please contact:

Jenny Schofield

Pricing Manager

Northern Gas Networks

1100 Century Way

Thorpe Park

Leeds

LS15 8TU

07947 853517

jschofield@northerngas.co.uk

Appendix 1 - Indicative Unit Charges effective from 1st April 2023

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

Charge band (kWh/annum)	Current (22/23)	Effective from 1st April 2023
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.2117	0.2455
73,200 to 732,000	0.1819	0.2109
>732,000	$2.1343 \times \text{SOQ}^{-0.2834}$	$2.4748 \times \text{SOQ}^{-0.2834}$
Subject to a minimum rate of:	0.0054	0.0063
Minimum reached at SOQ of:	1,456,257,568	1,425,097,551

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

Charge band (kWh/annum)	Current (22/23)	Effective from 1st April 2023
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0334	0.0387
73,200 to 732,000	0.0286	0.0332
>732,000	$0.3670 \times \text{SOQ}^{-0.2940}$	$0.4256 \times \text{SOQ}^{-0.2940}$
Subject to a minimum rate of:	0.0010	0.0012
Minimum reached at SOQ of:	528,876,122	470,823,805

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (22/23)	Effective from 1st April 2023
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1130	0.1310
73,200 to 732,000	0.0040	0.0046
>732,000	$0.0863 \times \text{SOQ}^{-0.2100}$	$0.1001 \times \text{SOQ}^{-0.2100}$

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

Type of Supply Point	Current (22/23)	Effective from 1st April 2023
	Fixed p / day	Fixed p / day
Non-monthly read supply points	35.5069	41.1717
Monthly read supply points	37.8066	43.8383

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (22/23)	Effective from 1st April 2023
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0293	0.0199
NE2	0.0330	0.0080
NE3	0.0330	0.0080
NO1	0.0299	0.0205
NO2	0.0276	0.0188

Supplier of Last Resort Charges

Type of Supply Point	Current (22/23)	Effective from 1st April 2023
	Fixed p / day	Fixed p / day
Domestic sites	0.0712	0.0201

Appendix 2 – DN Entry Indicative Unit Rates 23/24

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 (22/23)		Effective from 1st April 2023	
		Go Live Date	Pence per kWh	Unit Rate: Charge or Credit	Pence per kWh	Unit Rate: Charge or Credit
HOWDOS	Howdon	17/02/2015	(0.04787)	Credit	(0.03960)	Credit
FOOTOS	Teeside	29/09/2015	(0.01497)	Credit	0.03671	Charge
LEEMOS	Leeming	22/12/2015	0.00113	Credit	0.01582	Charge
ASPAOS	Cumbria	31/05/2016	(0.01184)	Credit	(0.00814)	Credit
RIDGOS	Ridge Rd Sherburn in Elmet	21/07/2016	0.01892	Charge	0.04079	Charge
SHEROS	Agri Sherburn in Elmet	01/12/2016	(0.03957)	Credit	(0.02680)	Credit
GRAVOS	Gravel Pit	06/12/2016	(0.00356)	Credit	0.02049	Charge
NEWTOS	Emerald Biogas	08/12/2016	(0.05667)	Credit	(0.06216)	Credit
BURTOS	Burtos Agnes	18/01/2017	0.02741	Charge	0.04758	Charge
LANEOS	Lanes Farm	14/10/2019	(0.05800)	Credit	(0.05158)	Credit
SPALOS	Spaldington	22/10/2019	0.00585	Charge	0.02616	Charge
BRANOS	Bran Sands	28/11/2019	(0.06060)	Credit	(0.05328)	Credit
WARDOS	Wardley	09/12/2019	0.00061	Credit	0.02488	Charge
PARKOS	Park Farm	18/12/2019	(0.01574)	Credit	(0.02323)	Credit
PLAXOS	Plaxton Bridge	24/01/2020	0.27814	Charge	0.13377	Charge
HEDLOS	High Hedley	29/01/2020	0.13273	Charge	(0.00377)	Credit
MILLOS	Mill Nurseries	n/a	n/a	n/a	n/a	n/a
CRAMOS	Cramlington	29/03/2022	n/a	n/a	(0.02536)	Credit
DRIFIOS	Driffield	04/05/2022	n/a	n/a	(0.04278)	Credit