

1st November 2013

## SOUTHERN GAS NETWORKS plc

### Indicative Notice of Change to Transportation Charges on 1st April 2014

#### 1.0 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1st April 2014, in line with our Gas Transporter Licence requirement to provide 150 days notice of such proposals. The definitive notice of distribution transportation charges from 1st April 2014 will be published by 1st February 2014, in accordance with the two months notice requirement within the UNC.

#### 2.0 Indicative Distribution Transportation Charges 1st April 2014

The levels of charges have been constructed based on the latest available forecasts of the Allowed and Collected Revenues, which are still subject to change.

The table below shows the make up of the indicative price changes including revenue associated with NTS Exit Capacity charges. It should be noted that the changes are driven by a combination of price control allowances, inflation and impact of reduced peak daily demand.

**Table 1.0 Overall Average Indicative Transportation Price Change from 1<sup>st</sup> April 2014**

Indicative Price Change Elements April 14	
Opening Base Revenue	-3.4%
Base Revenue Adjustments	-0.6%
Assumed RPI Movement	3.3%
K Impact	-2.3%
Income Shortfall	0.5%
<b>Indicative Average Price Change 1<sup>st</sup> April 2014</b>	<b>-2.5%</b>

- The Base Revenue reflects the opening base revenue (PUt) outlined in Ofgem's Final Proposals for 2014/15.
- The Base Revenue adjustment made through MODt reflects a cost of debt forecast of 2.71% for 2014/15.
- The assumed movement in inflation for 2013/2014 (3.1%) and 2014/15 (2.9%) has been calculated using the RIIO-GD1 license formula and the August 2013 Treasury Forecast.
- For April 14 there is no K adjustment as the forecasted under/over recovery from 2013/14 is subject to a two year lag and will be recovered in 2015/16. The K impact reflects that the charges for 2014/15 need to recover the movement in K from £16.7m incorporated in April 13 charges to zero for this charging period.
- The income shortfall reflects the latest view of October 13 SOQ's being higher than assumed, as well as adjusting for a forecasted reduction in October 14.

Indicative charge units relating to LDZ charges can be found in Appendix 1.0. The table below outlines the indicative price change by individual charge type.

**Table 2.0 Indicative Average Price Change by Charge Type**

Charge Type	Indicative Price Change April 14
LDZ Charges	-2.9%
NTS Exit Capacity Charges	1.8%
<b>Overall Charges</b>	<b>-2.5%</b>

### 3.0 Uncertainties Impacting on April 14 Final Transportation Charges

At this stage there are still uncertainties which may cause the actual change in the charges, which will be published on 1st February 2014, to be different from the indicative change.

The major uncertainties are:-

- The final impact of Legacy Price Control Adjustments.
- The change from the assumed forecast level of Cost of Debt to the November actual.
- The change from the current forecast level of inflation (RPI) for 2013/14 and 2014/15 to the levels stated in the November 13 Treasury Forecast.
- The level of future supply point capacity and numbers.

### 4.0 Distribution Network (NTS) Exit Capacity Charges (ECN)

Following the implementation of Uniform Network Code Modification 0195AV industry arrangements for the charging of NTS Exit Capacity costs will change on the 1<sup>st</sup> October 2012. National Grid Transmission invoice gas Distribution Networks (DNs) for booked NTS Exit Capacity and DN's will invoice gas shippers in line with DNPC06 ("Proposals for LDZ Charges to Recover NTS Exit Capacity Charges).

#### 4.1 Exit Capacity Indicative Charges (ECN) from April 2014

Table 3.0 below shows the indicative charge rates set to recover the 2014/15 NTS Exit Capacity cost allowance for Southern.

**Table 3.0. April 14 Indicative NTS Exit Capacity (ECN) Charge Rate**

Exit Zone	Charge Rate (p/kWh/d)
SO1	0.0146
SO2	0.0307
SE1	0.0150
SE2	0.0150

#### Assumptions relating to the calculation of the indicative ECN charges:

- The charge rates in Table 3.0 reflect the allowance proportioned to the costs based on the National Grid NTS Exit Capacity price change on 1<sup>st</sup> October 2013 for the period March to September 2014. The indicative October 2014 rates for the period October 14 to March 14, published on 1<sup>st</sup> May 2013.

- Each Shipper's ECN charge has been calculated based on the total exit zone registered capacity (SOQ) as of 1 October.
- The ECN charges reflect the current view of capacity bookings for the period 1<sup>st</sup> April 2014 to the 31<sup>st</sup> March 2015.

#### **Exit Capacity Charges relating to the South East Local Distribution Zone:**

The Local Transmission System in the South East LDZ is highly integrated with customers being supplied by a number of SGN's offtakes at various times throughout the gas year.

One of the consequences of this integration is the capacity which is booked at the NTS Offtake into Exit Zone SE2 facilitates gas to flow through to customers located in Exit Zone SE1 in order to operate the network efficiently. Exit charges are now based on the capacity booked at NTS Offtakes supplying LDZ exit zones and are then charged using the nominated or calculated SOQ to Shippers in the respective Exit Zone. In the SE LDZ there are two Exit zones, SE1 and SE2. In Exit zone SE2 the capacity booked by SGN with NTS (and the associated charges) is greater than the capacity used in SE2, therefore customers would have to pay higher charges than the actual capacity used within this exit zone.

We believe this is an unintended consequence of the change in the charging methodology and in order to overcome this issue Southern Gas Networks have aggregated all of the NTS exit capacity charges in the SE LDZ (Exit Zones SE1 and SE2) which will result in the ECN charges being calculated using the same ECN rate within these two exit zones reflecting the fact that all NTS exit points provide the required capacity.

#### **5.0 April 14 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 two sites located within Southern Gas Networks.

Site Name	LDZ System Entry Commodity Rate p/kWh
Didcot Biomass	0.0806 (credit)
Poundbury Biomass	0.0862 (credit)

#### **6.0. Methodology Changes**

There are currently no amendments to transportation charging methodology that will impact on charges for the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015.

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.

**If you have any queries or require any further details on this notice please contact us at**  
[pricingteam@sgn.co.uk](mailto:pricingteam@sgn.co.uk)

## Appendix 1 – Indicative Unit Charges From 1<sup>st</sup> April 2014

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

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.1905
73,200 to 732,000	0.1512
>732,000	$1.9848 \times \text{SOQ}^{-0.2970}$

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

Charge Band (kWh/annum)	Commodity p/kWh
Up to 73,200	0.0319
73,200 to 732,000	0.0250
>732,000	$0.3797 \times \text{SOQ}^{-0.3129}$

### LDZ Customer Capacity Charges

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.0878
73,200 to 732,000	0.0034
>732,000	$0.0734 \times \text{SOQ}^{-0.21}$

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

Type of Supply Point	p/day
Non-monthly read supply points	30.2199
Monthly read supply points	32.1776

### CSEP Administration Charge

Charge per supply point	0.0935 pence per day (£0.34 per annum)
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Please note that the CSEP administration charge is calculated by Xoserve and is outside of the RIIO-GD1 price control settlement.

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