**60-day notice of Transportation charges effective from 1 April 2020**

**2020/21**

**Charging Statement**

**Introduction**

This publication sets out the Local Distribution Zone (LDZ) transportation charges which apply from 1 April 2020 for the use of the Northern Gas Networks Limited (NGN) Distribution Network, as required by Standard Special Condition A4 of the Gas Transporters Licence. This document does not override or vary any of the statutory, Licence or Uniform Network Code obligations.

For more information on the charges contained within this document, please contact the NGN Pricing Manager on 0113 397 5354.

* 1. **Uniform Network Code**

The Uniform Network Code (UNC) is supported by an integrated set of computer systems called UK Link. The charges and formulae in this Notice will be used in the calculation of charges within UK Link, which are definitive for billing purposes.

There are many areas of the UNC that impact upon the cost to shippers of using the transportation network, such as imbalance charges, scheduling charges, capacity over-runs and ratchet charges, top-up neutrality charges and contractual liability. Reference should be made to the UNC, as modified from time-to-time, for details of such charges and liabilities.

The methodologies underlying the charges are stated in the UNC Transportation Principal Document (TPD) Section Y Part B and may be subject to alteration under the governance of UNC Modification Rules.

All UNC documents and Modifications can be found on the Joint Office of Gas Transporters website [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

* 1. **Units**

Commodity charges are expressed and billed in pence per kilowatt hour.

Capacity charges are expressed and billed in pence per peak day kilowatt hour per day

Fixed charges are expressed and billed in pence per day.

* 1. **Invoicing**

Xoserve produce and issue the invoices that are derived from the transportation charges shown within this notice. To clarify the link between charging and invoicing, charge codes and invoice names are included in the tables. For more information on invoicing, please contact Xoserve directly at [Css.Billing@xoserve.com](mailto:Css.Billing@xoserve.com).

* 1. **The Distribution Network Price Control Formula**

Transportation charges are derived from a Price Control Formula which is set by Ofgem, the gas and electricity market regulator. This dictates the maximum revenue that can be earned from the transportation of gas.

* Allowed revenue for the NGN network for the forthcoming formula year (1 April 2020 to 31 March 2021) is **£439.9m**. This is an increase year on year of +£3m/+0.7% and results in **LDZ unit rates increasing by** **+0.6%** and **Exit Capacity rates reducing by (56.4%)**
* Should more or less than the maximum permitted revenue be earned in any formula year, then a compensating adjustment is made to the allowed revenue two formula years following the current formula year (i.e. for the 2020/21 formula year, any under or over recovery will be adjusted in the 2022/23 formula year).

The allowed revenue number of **£439.9m** is made up of the following:

* Allowed revenue from RIIO final proposals is **£470.5m**.

* NGN is **returning (£37.8m)** back to customers as calculated by the November 2019 Ofgem Annual Iteration Process. This is largely due to updating the allowances for cost of debt, the sharing factor within the Totex Incentive Mechanism for 18/19 outperformance vs. the allowances, revising pension deficit allowances and restatement of tax allowances after changes to corporation tax rates and the special rate capital allowance rates.

* Networks receive 100% funding for Non-Controllable costs and are given an allowance up front to cover this. If there is a difference between the allowance and actual cost this is trued up 2 years later. As a result, NGN is **returning (£6.6m)** for these expenditure areas.
* NGN is also **collecting £0.5m** during 20/21 due to under collection of income during 18/19 regulatory year. This is linked to differences between forecast and actual AQ (Annual Quantities) which play an integral part in how income is collected from shippers.
* RPI used when setting prices for the following regulatory year is a forecast and this year is based on the previous December’s HM Treasury publication (November 2019 RPI data which is normally used for price setting purposes was not available due to the general election). Prices have been set for 20/21 with a forecast RPI rate of +2.5%.

Any difference between the forecast and actual is trued up 2 years after. In 20/21 NGN is **returning (£0.3m)** because actual RPI was 0.3% lower than forecast when prices were set for 18/19 regulatory year.

* Allowed Revenue also includes **+£0.9m** as part of 3 Supplier of Last Resort claims – these are as follows:
  + £235k for One Select / Together Energy - as part of a £4.5m total industry claim
  + £643k for Ovo Energy / Economy Energy - as part of a £12.4m total industry claim
  + £18k for Shell Energy / Usio Energy - as part of a £0.4m total industry claim

* RIIO incentive income also has a 2-year lag in terms of when networks can recover income. During 20/21 NGN will be allowed to collect an additional **+£10.0m** from 18/19 incentive performance on shrinkage/environmental emissions, customer satisfaction, stakeholder engagement, discretionary reward scheme and exit capacity.
* An additional **+£2.7m** is also included for forecast network innovation spend during 20/21.

Distribution revenue recovery is split between LDZ system charges and customer charges. LDZ system charges comprise capacity and commodity charges. Customer charges comprise capacity charges, although certain supply points receive a fixed charge and in addition a variable capacity-based charge. All transportation is provided on a firm basis only.

* 1. **Theft of gas**

The licensing regime places incentives on transporters, shippers and suppliers to take action in respect of suspected theft of gas. Certain costs associated with individual cases of theft are recovered through transportation charges with the transporter remaining cash neutral in the process.

* 1. **Project Nexus Charging Methodology**

Our price change includes an assumption that capacity levels will reduce by **-1.9%** from April 2020. This is due to new load factors being included within the charging calculations from April onwards.





**Transportation Charges**

**2.1 LDZ System Charges**

The standard LDZ system charges comprise capacity and commodity charges, with the same rates and functions for directly connected supply points and connected system exit points (CSEPs).

Where LDZ charges are based on functions, these functions use Supply Point Offtake Quantity (SOQ) in the determination of the charges. At Daily Metered (DM) supply points the SOQ is the registered supply point capacity. For Non-Daily Metered (NDM) supply points, the SOQ is calculated using the supply point End User Category (EUC) and the appropriate load factor.

**2.1.1 Directly Connected Supply Points**

The unit charges and charging functions used to calculate system charges to directly connected supply points are as follows:

|  |  |  |
| --- | --- | --- |
| **Charge type** | **LDZ Capacity** | **LDZ Commodity** |
| **Charge code** | **ZCA** | **ZCO** |
| **Unit rate** | **Pence per peak day kWh per day** | **Pence per kWh** |
| Up to 73,200 kWh p.a. | 0.2125 | 0.0335 |
| 73,200 to 732,000 kWh p.a. | 0.1826 | 0.0287 |
| 732,000 kWh and above p.a. | 2.1423 x SOQ ^ -0.2834 | 0.3684 x SOQ ^ -0.2940 |
| Subject to a minimum rate of | 0.0055 | 0.0011 |
| Minimum reached at SOQ of | 1,383,096,554 | 387,424,301 |

**2.1.2 Connected System Exit Points**

In the calculation of LDZ charges payable, the unit rate commodity and capacity charges are based on the supply point capacity equal to the CSEP peak day load for the completed development irrespective of the actual stage of development. The SOQ used is therefore the estimated SOQ for the completed development as provided in the appropriate Network Exit Agreement (NExA). For any particular CSEP, each shipper will pay identical LDZ unit charges regardless of the proportion of gas shipped. Reference needs to be made to the relevant NExA or CSEP ancillary agreement to determine the completed supply point capacity.

The unit charges and charging functions used to calculate charges to CSEPs are as follows:

|  |  |  |
| --- | --- | --- |
| **Charge type** | **LDZ Capacity** | **LDZ Commodity** |
| **Charge code** | **891** | **893** |
| **Unit rate** | **Pence per peak day kWh per day** | **Pence per kWh** |
| Up to 73,200 kWh p.a. | 0.2125 | 0.0335 |
| 73,200 to 732,000 kWh p.a. | 0.1826 | 0.0287 |
| 732,000 kWh and above p.a. | 2.1423 x SOQ ^ -0.2834 | 0.3684 x SOQ ^ -0.2940 |
| Subject to a minimum rate of | 0.0055 | 0.0011 |
| Minimum reached at SOQ of | 1,383,096,554 | 387,424,301 |

**2.1.3 Optional LDZ Charge**

The optional LDZ tariff is available, as a single charge, as an alternative to the standard LDZ system charges. The rationale for this tariff is that, for large LDZ loads located close to the NTS, the standard tariff can appear to give perverse economic incentives for the construction of new pipelines when LDZ connections are already available. This tariff may be attractive to large loads located close to the NTS, but it is strongly advisable to contact the NGN Pricing Manager on 0113 397 5354 prior to opting for this tariff.

|  |  |
| --- | --- |
| **Invoice** | **Charge Code** |
| **ADU** | **881** |

|  |
| --- |
| **Pence per peak day kWh per day** |
| 902 x [(SOQ)^-0.834] x D + 772 x (SOQ) ^-0.717 |

Where SOQ is the registered supply point capacity and D is the direct distance, in km, from the site boundary to the nearest point on the NTS.

**2.2 LDZ Customer Charges**

For supply points with an Annual Quantity (AQ) of less than 73,200 kWh per annum, the customer charge is a capacity charge.

For supply points with an AQ of between 73,200 and 732,000 kWh per annum, the customer charge is made up of a fixed charge which depends on the frequency of meter reading, plus a capacity charge based on the registered SOQ.

For supply points with an AQ of greater than 732,000 kWh per annum, the customer charge is based on a function related to the registered SOQ.

**2.2.1 Directly Connected Supply Points**

The unit charges and charging functions used to calculate customer charges to directly connected supply points are as follows:

|  |  |
| --- | --- |
| **Charge type** | **LDZ Capacity** |
| **Charge code** | **CCA** |
| **Unit rate** | **Pence per peak day kWh per day** |
| Up to 73,200 kWh p.a. | 0.1134 |
| 73,200 to 732,000 kWh p.a. | 0.0041 |
| 732,000 kWh and above p.a. | 0.0866 x SOQ ^ -0.2100 |

In addition to the above, the following fixed charge applies to supply points with an AQ of between 73,200 and 732,000 kWh:

|  |  |
| --- | --- |
| **Charge type** | **LDZ Capacity** |
| **Charge code** | **CFI** |
| **Unit rate** | **Pence per day** |
| Non-monthly read supply points | 35.6391 |
| Monthly read supply points | 37.9474 |

**2.3 Exit Capacity Charges**

The LDZ Exit Capacity NTS (ECN) charge is a capacity charge that is applied to the supply point or CSEP in the same manner as the LDZ system capacity charge. These charges are applied per exit zone on an administered peak day basis. The exit zone for a DN supply point is determined by its postcode.

|  |  |
| --- | --- |
| **Charge type** | **LDZ Exit Capacity** |
| **Charge code - directly connected supply points/CSEPs** | **ECN/C04** |
| **Unit rate** | **Pence per peak day kWh per day** |
| NE1 | 0.0032 |
| NE2 | 0.0003 |
| NE3 | 0.0003 |
| NO1 | 0.0007 |
| NO2 | 0.0033 |

**2.4 DN Entry Charges**

The LDZ System Entry Commodity charge rates reflect the operating costs associated with the entry of the distributed gas and the benefits from not using the distribution network from point of entry to the offtake. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis.

The table below shows sites that are currently live – for sites that become live during 20/21 unit rates will be calculated accordingly and an Xoserve notification made so the shipper gets charged correctly. Please contact the NGN pricing manager on 0113 397 5354 if rates are needed prior to the go live date.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Xoserve**  **Site name** | **Charge Type** |  | **LDZ System Entry Commodity** | |
| **Charge Code** |  | **LEC** | |
| **Site Name** | **Go Live Date** | **Pence per kWh** | **Unit Rate: Charge or Credit** |
| HOWDOS | Howdon | 17/02/2015 | (0.03249) | Credit |
| FOOTOS | Teeside | 29/09/2015 | (0.02236) | Credit |
| LEEMOS | Leeming | 22/12/2015 | (0.03660) | Credit |
| ASPAOS | Cumbria | 31/05/2016 | (0.01715) | Credit |
| RIDGOS | Ridge Road Sherburn in Elmet | 21/07/2016 | 0.02535 | Charge |
| SHEROS | Agri Sherburn in Elmet | 01/12/2016 | (0.03317) | Credit |
| GRAVOS | Gravel Pit | 06/12/2016 | (0.00324) | Credit |
| NEWTOS | Emerald Biogas | 08/12/2016 | (0.04350) | Credit |
| BURTOS | Burtos Agnes | 18/01/2017 | 0.03413 | Charge |
| LANEOS | Lanes Farm | 14/10/2019 | (0.02639) | Credit |
| SPALOS | Spaldington | 22/10/2019 | 0.03756 | Charge |
| BRANOS | Bran Sands | 28/11/2019 | (0.03325) | Credit |
| WARDOS | Wardley | 09/12/2019 | (0.00979) | Credit |
| PARKOS | Park Farm | 18/12/2019 | (0.02245) | Credit |
| PLAXOS | Plaxton Bridge | 24/01/2020 | 0.04543 | Charge |
| MILLOS | Mill Nurseries | n/a | n/a | n/a |















**Appendix**

# End User Categories

Estimation of peak daily load for NDM supply points

For NDM supply points, the peak daily load is estimated using a set of End User Categories (EUC). Each NDM supply point is allocated to an EUC. In each LDZ each EUC has an associated load factor – a full list of Winter Annual Ratio (WAR) bands and EUC load factors can be found below and on the Xoserve SharePoint site. The examples that follow use the data from the 19/20 tables.

These EUCs depend upon the annual quantity (AQ) of the supply point and, in the case of monthly read sites, the ratio of winter to annual consumption where available.

**Monthly read sites**

It is mandatory for supply points with an annual consumption greater than 293 MWh to be monthly read, however, at the shipper's request, sites below this consumption may also be classified as monthly read.

For monthly read sites where the relevant meter reading history is available, the WAR ratio is the consumption from December to March divided by the annual quantity. If the required meter reading information is not available, the supply point is allocated to a EUC simply based on its annual quantity.

The peak load for an NDM supply point may then be calculated as:

|  |
| --- |
| *AQ×100* |
| *LoadFactor×365* |

Example

For a supply point in North East (NE) LDZ with an annual consumption of 1,000 MWh per annum.

Assume consumption December to March inclusive is 500 MWh.

WAR ratio = 500 ÷ 1000 = 0.5

For a site with an annual consumption of 1,000 MWh, a ratio of 0.5 falls within WAR ratio band W03 and the site is thus within End User Category NE: E1904W03.

For a site in this category, the load factor is 32.3% and the peak daily load is therefore

|  |  |
| --- | --- |
| 1000 x 100 | = 8.48 MWh |
| 365 x 32.3 |

If the required meter reading information is not available to calculate the winter: annual ratio, the supply point is allocated to a EUC simply based on its annual quantity, in this case NE: E1904B.

For a site in this category, the load factor is 38.6% and the peak daily load is therefore

|  |  |
| --- | --- |
| 1000 x 100 | = 7.10 MWh |
| 365 x 38.6 |

**Six monthly read sites**

In the case of six monthly read sites, the supply point is allocated to a EUC simply based on its annual quantity.

Example

For a non-prepayment supply point in NE LDZ with an annual consumption of 200 MWh per annum, the EUC will be NE: E1902BNI. For a site in this category, the load factor is 35.9% and the peak daily load is therefore

|  |  |
| --- | --- |
| 200 x 100 | = 1.53 MWh |
| 365 x 35.9 |

Notes

The term LDZ is applied in the context of its usage with reference to the UNC daily balancing regime.

For supply points whose consumption is over 73,200 kWh and which include one or more NDM supply meter points, an end user category code can be found in the supply point offer generated by UK Link. This code may be correlated with the end user category code shown below by means of a lookup table issued separately to shippers. Copies are available from the Xoserve Supply Point Administration Management team by emailing [externalrequests.spa@xoserve.com](mailto:externalrequests.spa@xoserve.com)

**Daily metered supply points**

The SOQ of DM sites is known and hence no load factor is required.

Supply points with annual consumptions greater than 58,600 MWh should be daily metered. However, a handful of sites remain as non-daily metered because of difficulties installing the daily read equipment. In such cases the end user category code XX:E1909B is used. Firm supply points with an AQ above 73.2 MWh per annum may, at the shipper's request, be classified as daily metered. All interruptible supply points are daily metered.

**Consultation on end user categories**

Section H of the UNC requires the transporter to publish, by the end of June each year, its demand estimation proposals for the forthcoming supply year. These proposals comprise end user category definitions, NDM profiling parameters (ALPs and DAFs), and capacity estimation parameters (EUC load factors). Analysis is presented to users and consults with the Demand Estimation Sub-Committee (a sub-committee of the UNC) before publication of its proposals Table 2.1 Definition of end user categories.

**WAR Bands and End User Categories**

The latest set of data from October 2019 can be found below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **EUC** | **Annual Load** |  | **Winter Annual Ratios (WAR)** | | | |
| **Code** | **(MWh)** |  | **W01** | **W02** | **W03** | **W04** |
| E1901W0y | 0 to 73.2 | **Small NDM**  **Sector** | 0 | 0 | 0 | 0 |
| E1902W0y | 73.2 to 293 | 0 | 0 | 0 | 0 |
| E1903W0y | 293 to 732 | 0.000 - 0.405 | 0.406 - 0.463 | 0.464 - 0.535 | 0.536 - 1.000 |
| E1904W0y | 732 to 2,196 | 0.000 - 0.405 | 0.406 - 0.463 | 0.464 - 0.535 | 0.536 - 1.000 |
| E1905W0y | 2,196 to 5,860 | **Large NDM**  **Sector** | 0.000 - 0.370 | 0.371 - 0.437 | 0.438 - 0.506 | 0.507 - 1.000 |
| E1906W0y | 5,860 to 14,650 | 0.000 - 0.331 | 0.332 - 0.395 | 0.396 - 0.474 | 0.475 - 1.000 |
| E1907W0y | 14,650 to 29,300 | 0.000 - 0.322 | 0.323 - 0.350 | 0.351 - 0.415 | 0.416 - 1.000 |
| E1908W0y | 29,300 to 58,600 | 0.000 - 0.322 | 0.323 - 0.350 | 0.351 - 0.415 | 0.416 - 1.000 |
| E1909W0y | > 58,600 | 0 | 0 | 0 | 0 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Load Factors from Oct 2019** | **Notes** | **NE** | **NO** |
| E1901B | Old code replaced by the 4 below: | - | - |
| E1901BND | Non-Prepayment - Domestic | 33.5% | 34.5% |
| E1901BNI | Non-Prepayment | 31.8% | 34.8% |
| E1901BPD | Prepayment Domestic | 37.1% | 38.4% |
| E1901BPI | Prepayment I&C | 31.8% | 34.8% |
| E1902B | Old code replaced by the 4 below: | - | - |
| E1902BND | Non-Prepayment - Domestic | 40.4% | 40.3% |
| E1902BNI | Non-Prepayment | 35.9% | 37.8% |
| E1902BPD | Prepayment Domestic | 37.1% | 38.4% |
| E1902BPI | Prepayment I&C | 35.9% | 37.8% |
| E1903B |  | 37.5% | 39.3% |
| E1903W01 |  | 55.6% | 56.2% |
| E1903W02 |  | 44.8% | 43.6% |
| E1903W03 |  | 32.3% | 30.9% |
| E1903W04 |  | 24.3% | 24.3% |
| E1904B |  | 38.6% | 37.8% |
| E1904W01 |  | 55.6% | 56.2% |
| E1904W02 |  | 44.8% | 43.6% |
| E1904W03 |  | 32.3% | 30.9% |
| E1904W04 |  | 24.3% | 24.3% |
| E1905B |  | 43.7% | 42.2% |
| E1905W01 |  | 60.2% | 61.9% |
| E1905W02 |  | 49.0% | 51.0% |
| E1905W03 |  | 38.0% | 38.6% |
| E1905W04 |  | 26.6% | 26.0% |
| E1906B |  | 55.1% | 49.0% |
| E1906W01 |  | 66.9% | 64.9% |
| E1906W02 |  | 60.1% | 60.5% |
| E1906W03 |  | 44.7% | 46.2% |
| E1906W04 |  | 29.6% | 31.5% |
| E1907B |  | 68.7% | 63.7% |
| E1907W01 |  | 70.2% | 70.6% |
| E1907W02 |  | 72.6% | 73.4% |
| E1907W03 |  | 60.2% | 61.1% |
| E1907W04 |  | 36.8% | 40.9% |
| E1908B |  | 68.7% | 63.7% |
| E1908W01 |  | 70.2% | 70.6% |
| E1908W02 |  | 72.6% | 73.4% |
| E1908W03 |  | 60.2% | 61.1% |
| E1908W04 |  | 36.8% | 40.9% |
| E1909B |  | 64.0% | 63.9% |