

DN Charging Methodology Forum

SGN December 2017 Mod 186 Summary

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SGN

Your gas. Our network.

Key Revenue Changes

- RPIFt Increase in inflation 2019/20 onwards in line with revised 28 November 2017 Treasury forecast;
- RBt Updated 2017/18 business rate costs;
- LFt Updated final view of licence fee cost 2017/18 reflected in 2019/20 on 2 year lag;
- PDt Revised pension deficit from 2018/19 onwards reflects latest NTS statement 28 October 2017;
- SHRt Shrinkage gas price 2017/18 onwards as per market forecast report 30 November 2017;
- Kt Update Collected revenue movements for 2017/18;

Key Revenue Changes

- MODt 2018/19 values now confirmed as per Ofgem November 2017 AIP;
- CDE Revised 2018/19 CDE value to 2.03% due to the BoE only publishing data up to 4th May 2017;
- EDE Established pension deficit reassessed on tri-annual basis, now fixed until 2020/21.

Sensitivities

- Supplier of Last Resort claim, reflects a holding assumption awaiting Ofgem confirmation as to the DN apportionment of the claim.
- SGN voluntary contribution, no pricing impact in 2018/19. Certainty that the required revenue adjustments will take place. The report assumes that the contributions for 2018/19 and 2019/20 will be reflected through the November 2018 AIP.
- Xoserve December 2017 snapshot, the report reflects an initial impact assessment on revenue.
- The cost of debt applied in 2018/19. SGN has assumed that this will be corrected in Ofgem AIP in November 2018.

Additional Updates

- Mod 0621-Amendments to Gas Transmission Charging Regime (see separate slides)
- December 2017 SOQ snapshot





TABLE 1: TOTAL CHARGE ELEMENTS (LDZ + CUSTOMER + ECN)

FORECAST RPI FACTOR	RPIft
ASSUMED ANNUAL INFLATION FOR PRICE SETTING	
ACTUAL / FORECAST ANNUAL INFLATION	
OPENING BASE REVENUE ALLOWANCE (2009/10 PRICES)	Put
PRICE CONTROL FINANCIAL MODEL ITERATION ADJUSTMENT (2009/10 PRICES)	MODt
RPI TRUE UP (2009/10 PRICES)	TRUt
UPLIFT TO NOMINAL PRICES USING RPIft	
BASE REVENUE (NOMINAL)	
BUSINESS RATES ADJUSTMENT	
LICENSE FEES ADJUSTMENT	
PENSION DEFICIT ADJUSTMENT	
PASS THROUGH	
SHRINKAGE COST ADJUSTMENT	SHRat
SHRINKAGE REVENUE ADJUSTMENT	SHRat
CORRECTION TERM REVENUE ADJUSTMENT	-Kt
MAXIMUM ALLOWED REVENUE	
TOTAL DISTRIBUTION CHARGES ARITHMETICAL PRICE CHANGE	
COST OF DEBT ADJUSTMENT	
TAX TRIGGER EVENT	
TAX LIABILITY - GEARING/INTEREST COSTS	
PENSION SCHEME ESTABLISHED DEFICIT	
TOTAL VALUE INCLUDED IN TABLE 1 IN THIS FORECAST	

TABLE 6: RISKS AND SENSITIVITIES

SUPPLIER OF LAST RESORT CLAIM (ASSUMED IMPACT)
SGN VOLUNTARY CONTRIBUTION
ASSUMES TRUP UP FOR 2018/19 COST OF DEBT IN 2019/20 VIA ANNUAL ITERATION PROCESS
INITIAL VIEW OF XOSERVE 4th DECEMBER SNAPSHOT - AQ DATA FIX (REQUIRES FURTHER VALIDATION)

2017/18	2018/19	2019/20	2020/21	2021/22
0.000	0.0000	0.0010	0.0041	
0.0%	0.0%	0.1%	0.2%	
0.0%	0.0%	0.0%	0.0%	
0.0	0.0	0.0	0.0	
0.0	2.5	0.7	0.7	0.0
0.0	0.0	0.0	0.0	0.0
0.0	0.8	0.8	2.5	
0.0	3.3	1.6	3.3	
0.0	0.0	0.0	0.3	0.4
0.0	0.0	0.7	0.7	0.7
0.0	0.0	0.0	-0.5	-0.5
0.0	0.0	0.7	0.5	0.6
0.0	0.0	0.5	0.8	0.5
0.0	0.0	0.5	0.8	0.5
0.0	0.0	0.0	0.0	0.0
0.0	3.3	2.8	4.7	0.0
-	0.5%	-0.1%	0.2%	
0.0	1.4	0.0	0.0	
0.0	0.4	0.0	0.0	
0.0	-0.2	0.0	0.0	0.0
0.0	0.7	0.7	0.7	
0.0	2.5	0.7	0.7	0.0
-	0.2%	-	-	-
-	-	-0.4%	-	-
-	-	-0.4%	-	-
-	-0.5%	-	-	-



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2017/18 2018/19 2019/20 2020/21 2021/22

0.000	0.0000	0.0010	0.0041	
0.0%	0.0%	0.1%	0.2%	
0.0%	0.0%	0.0%	0.0%	
0.0	0.0	0.0	0.0	
0.0	1.2	0.4	0.4	0.0
0.0	0.0	0.0	0.0	0.0
0.0	0.4	0.4	1.1	
0.0	1.6	0.7	1.5	
0.0	0.0	-0.9	-0.3	-0.3
0.0	0.0	0.3	0.3	0.3
0.0	0.0	0.0	-0.2	-0.2
0.0	0.0	-0.6	-0.2	-0.2
0.0	0.0	0.2	0.3	0.2
0.0	0.0	0.2	0.3	0.2
0.0	0.0	-1.0	5.3	0.0
0.0	1.6	-0.6	6.9	0.0
-	+0.0%	+0.4%	+2.2%	
0.0	0.6	0.0	0.0	
0.0	0.5	0.0	0.0	
0.0	-0.3	0.0	0.0	0.0
0.0	0.4	0.4	0.4	
0.0	1.1	0.4	0.4	0.0
-	0.2%	-	-	-
-	-	-0.5%	-	-
-	-	-0.4%	-	-
-	-0.6%	-	-	-

Mod 0621-Amendments to Gas Transmission Charging Regime

As UNC modification 0621 (NTS charging methodology review) continues to develop it is important to inform the market of the material impact that the proposed change in NTS charging methodology could have on the costs that we are obliged to pass through in our charging structure. As it stands the proposal will significantly change the level of exit capacity costs from 2019/20 and prices on a two-year lagged basis from 2021/22 for each of our distribution networks. Based on the information that we currently have available to us from National Grid we anticipate the following impacts of the changing NTS exit capacity charges.

The move to a Capacity Weighted Distance (CWD) model to derive charges from October 2019. The outputs of which significantly change the way costs are distributed between the GDN's. We anticipate that this will significantly increase charge levels in Scotland from the lowest to the one of the highest charges on a per customer basis and will decrease them in Southern from 2021/22.

The move from a commodity to a capacity based revenue recovery mechanism in October 2021 is expected to almost double the level of NTS costs to be recovered through both of SGN's distribution networks from 2023/24 compared to the 2021/22 values.

Mod 0621-Amendments to Gas Transmission Charging Regime

Please note that modification is currently at a proposal stage and there a number of proposed modifications that may have material outcome on the out-turn values.

To date SGN has been engaging directly with NTS to comprehend the impact on NTS exit capacity cost and charge levels. Going forward we will be looking to actively engage with all relevant stakeholders to highlight the potential impact of any proposed changes.

In order to engage with the process and understand the potential cost/price impacts relating to modification 0621 and it's alternates, we recommended :-

- Attendance at NTSCMF – www.gasgovernance.co.uk/Diary;
- A review of the associated published documentation – www.gasgovernance.co.uk/ntscmf;
- Monitoring the forecasted price impact as the process develops through DCMF and the published Mod 186 Reports.