

Issued 1st November 2014

Indicative Notice of LDZ Transportation Charges from 1 April 2015

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2015 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 2015 will be published by 31 January 2015, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

NGN's headline price change for 15/16 is **+6.9%**. This is in line with the recently published mod186 quarterly pricing statement. This represents an LDZ price change of **+7.6%** combined with an average exit capacity reduction in charges of **-36.1%**.

£m

14/15 Allowed Revenue	411.9
Final Proposals movement (exc tax)	(5.1)
Final Proposals : IFRS tax allowance	27.9
Total changes in final proposals	22.8
Total	434.7
13/14 Exit Capacity cost true up	(4.2)
13/14 K factor - over collected income	(3.2)
13/14 Totex Incentive (36% give back)	(2.5)
13/14 : Other pass through true ups	(2.3)
Year on year legacy income	(2.2)
Cost of debt 10 year IBOXX index	(2.1)
13/14 : Repex Tier 2a allowance restatement	(1.0)
13/14 : RPI true up	1.4
13/14 : Additional Incentives earned	5.7
Total through annual update process	(10.4)
15/16 Allowed Revenue	424.3

- Allowed Revenue increases from £412m in 14/15 to £424m in 15/16, an increase year on year of +£12m / +3%.

- The biggest increase is due to IFRS implementation which increases networks tax charges significantly due to repex capitalisation – an additional £28m allowance is included in 15/16 which has been partially offset by reductions in other areas as shown in the table.

- The other major factor contributing to the 6.9% price change is the change in Annual Quantities from October 2014 :

- October 2014 "AQ's" for the NGN region dropped by -3.6%.

- As a result we have also revised

our forward looking assumption to a drop of -3% from October 2015 onwards.

Inflation has been based on the HM Treasury August report and for 15/16 is forecast to be 3.2%. This is included in the data shown above. When the 60 day notice is issued this will be updated to reflect the November HM Treasury forecast.

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 15/16 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.

Whilst we have a good indication of the Annual Quantity decline and this has been included in our indicative price change, we won't know the final outcome until we have visibility of October invoices issued during November.

CSEP admin charges have still been included in our annual charges. It is anticipated that these charges will be removed though upon project nexus implementation – current implementation 1st October 2015.

4. Further Information

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

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Appendix 1 - Indicative Unit Charges and Charging Functions effective 1 April 2015

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

Charge band (kWh/annum)	Current (14/15)	Effective from 1 st April 2015
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1859	0.2000
73,200 to 732,000	0.1598	0.1720
>732,000	$1.8745 \times \text{SOQ}^{-0.2834}$	$2.0172 \times \text{SOQ}^{-0.2834}$
Subject to a minimum rate of:	0.0049	0.0053
Minimum reached at SOQ of:	1,297,866,250	1,274,704,834

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

Charge band (kWh/annum)	Current (14/15)	Effective from 1 st April 2015
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0292	0.0314
73,200 to 732,000	0.0251	0.0270
>732,000	$0.3224 \times \text{SOQ}^{-0.294}$	$0.3469 \times \text{SOQ}^{-0.294}$
Subject to a minimum rate of:	0.0009	0.0010
Minimum reached at SOQ of:	487,072,509	436,667,309

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (14/15)	Effective from 1 st April 2015
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.0992	0.1068
73,200 to 732,000	0.0036	0.0039
>732,000	$0.0757 \times \text{SOQ}^{-0.2100}$	$0.0815 \times \text{SOQ}^{-0.2100}$

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

Type of Supply Point	Current (14/15)	Effective from 1 st April 2015
	Fixed p / day	Fixed p / day
Non-monthly read supply points	31.18	33.56
Monthly read supply points	33.20	35.73

CSEP Administration Charge - calculated by Xoserve and independent of the price control settlement

	Current (14/15)	Effective from 1 st April 2015
Charge per supply point	0.0935 pence per day (£0.34 per annum)	0.0910 pence per day (£0.33 per annum)

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (14/15)	Effective from 1 st April 2015
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0087	0.0059
NE2	0.0008	0.0005
NE3	0.0008	0.0005
NO1	0.0030	0.0016
NO2	0.0124	0.0076