

Southern Gas Networks
Indicative Notice of Change to
Transportation Charges from
1st April 2015



SGN

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1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1st April 2015, 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 2015 will be published by 1st February 2015, in accordance with the two months notice requirement within the UNC.

2 Indicative changes to Distribution Transportation Charges on 1st April 2015

There is no forecasted change to average charge levels from 1st April 2015.

The levels of charges have been constructed based on the latest available forecasts of the 2015/16 Allowed and Collected Revenues, which are still subject to change. The key movements of the indicative price change which includes revenue associated with NTS Exit Capacity charges are set out below:

- The year on year impact on Base Revenue as stated at Final Proposals adjusted as directed by Ofgem's Annual Iteration Process(-0.9%);
- The inflationary impact on 2015/16 revenue (2.5%);
- The impact of 2013/14 actual pass through costs (compared to allowances) and Incentives, which are on a two year lag (-0.4%);
- The adjustment relating to the £14.6m over recovery of revenue in 2013/14 (k), which has been subject to a two year lag (-2.2%);
- The shortfall reflecting the latest view of October 2014 SOQ's being higher than assumed, as well as adjusting for a forecasted reduction in October 2015 (1.0%)

3 Uncertainties Impacting April 2015 Final Transportation Charges

At this stage there are still uncertainties which may cause the actual change in the charges, which will be published by 1st February 2015, to be different from the indicative change.

The major uncertainties are:-

- The final determination of the adjustment required to base revenue for 2015/16 through the Annual Iteration Process, incorporating the November 2014 Cost of Debt actual.
- Updated inflation (RPI) for 2015/16 to the defined levels as stated in the November 2014 Treasury Forecast.
- The level of future supply point capacity and numbers.

4 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 changed on the 1st 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) 1st April 2015

The change to charge levels from 1st April 2015 is forecast to be a decrease of 2.6%.

Assumptions relating to the calculation of the indicative ECN charges:

- The charge rates shown in Table 1 reflect the allowance proportioned to the costs based on the National Grid NTS Exit Capacity price change on 1st October 2014 for the period April to September 2015. The indicative October 2015 rates for the period October 2015 to March 2016, published on 1st May 2014.
- Each Shipper's ECN charge calculated based on total exit zone registered capacity as of 1 October 2014.
- The ECN charges reflect the current view of capacity bookings from 1st April 2015 to the 31st March 2016.

Table 1 below shows the indicative charge rates set to recover the 2015/16 NTS Exit Capacity cost allowance, 2013/14 K and allowance adjustments for Southern.

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SO1	0.0126
SO2	0.0279
SE1	0.0159
SE2	0.0159

Table 1: April 15 Indicative NTS Exit Capacity (ECN) Charge Rate

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 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 April 15 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 nine sites located within Southern Gas Networks.

Site Name	Distributed Gas Entry Commodity Rate (p/kWh)
Didcot Biomass	0.0774 (credit)
Poundbury Biomass	0.0831 (credit)
Portsmouth Hill	0.0180 (credit)
Apsley Farm	0.0724 (credit)
Blackpitts Brackley	0.0843 (credit)
Gorebasin Isle of Wight	0.0844 (credit)
Ickneild Farm	0.0725 (credit)
St Nicholas Court Farm	0.0839 (credit)
Riverside AD Mitcham	0.0841 (credit)

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.

6 Methodology Changes

There are currently no amendments to transportation charging methodology that will impact on charges for the period 1st April 2015 to 31st March 2016.

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

pricingteam@sgn.co.uk

Appendix: Indicative Unit Charge Rates from 1st April 2015

The average change to the charge rates shown below is forecast to be an increase of 0.3%.

These charge rates have been balanced in line with industry requirements to reflect the required proportions between Capacity (95%) and Commodity (5%) revenue. They have also been adjusted to maintain the agreed revenue split between System Charges (72.8%) and Customer Charges (27.2%).

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

Charge Band (kWh/annum)	Capacity p/peak day kWh
Up to 73,200	0.1907
73,200 to 732,000	0.1513
>732,000	$1.9866 \times \text{SOQ}^{-0.2970}$

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	0.0251
>732,000	$0.3800 \times \text{SOQ}^{-0.3129}$

LDZ Customer Capacity Charges

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.0880
73,200 to 732,000	0.0034
>732,000	$0.0736 \times \text{SOQ}^{-0.21}$

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

Supply Point Type	p/day
Non-monthly read supply points	30.2846
Monthly read supply points	32.2464

CSEP Administration Charge

Charge per supply point	0.0910 p/day (£0.33 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.