

Issued 1st November 2016

Indicative Notice of LDZ Transportation Charges from 1 April 2017

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2017 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 2017 will be published by 31 January 2017, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

2. Indicative Distribution Charges

NGN's headline price change for 17/18 is **(-2.9%)**. This represents an LDZ price change of **(-2.6%)** combined with an average exit capacity price increase of **(-16.9%)**. This is a further reduction from that presented in September's Mod186 @ (-1.6%) due to further 16/17 over recoveries identified during the October 2016 AQ/Load Factor changes.

As shown in the table below NGN's allowed revenue reduces by £5.5m year on year. Whilst this is a reduction of -1.3% we need an overall price decrease in our unit rates of -2.9%. This is because of the October 2016 AQ review which resulted in an over collection of income by £9.7m.

Notes	Year on Year movement	16/17	17/18	Var	Var %
1	Price Control Revenue	419.3	417.2	(2.2)	(0.5%)
	<u>Adjustments to base revenue</u>				
2	RPI true up	(5.9)	(9.3)	(3.4)	
3	Cost of Debt	(6.6)	(8.8)	(2.2)	
4	Tax trigger events	(0.2)	(2.0)	(1.8)	
5	Totex incentive mechanism	(2.0)	(3.8)	(1.7)	
6	FGO Allowance impact	0.0	(1.1)	(1.1)	
7	Shrinkage allowance changes	(0.4)	(0.2)	0.2	
8	Legacy GDPCR1 Adjustments	1.6	1.8	0.3	
	Base Revenue	405.8	393.9	(11.9)	(2.9%)
9	Non-Controllable cost true ups	(7.1)	(7.1)	0.0	
10	Network Innovation Allowance	2.6	2.5	(0.1)	
	<u>Incentives</u>				
11	NTS Exit Capacity	0.7	3.4	2.7	
12	Stakeholder Engagement	0.6	1.2	0.6	
13	Environmental Emissions	2.8	3.1	0.3	
14	Customer Satisfaction	2.1	2.2	0.1	
15	Shrinkage	0.6	0.6	(0.1)	
16	Discretionary Reward Scheme	0.8	0.0	(0.8)	
	Total Incentives	7.7	10.4	2.7	
17	Under/(Over Collection) "K"	2.8	6.5	3.7	
	Total Allowed Revenue	411.6	406.2	(5.5)	(1.3%)
18	AQ/SOQ change impact				(1.6%)
	Total Price Change				(2.9%)

Year on year movements >£0.5m are detailed below:

Note 1: Price Control Revenue - this is the allowed revenue as determined by Ofgem in the price control settlement (final proposal data)

Note 2: RPI True ups - this is “trueing” up any differences between forecast RPI and actual. There is a 2 year lag for this adjustment so the £9.3m adjustment in 17/18 relates to differences arising in 15/16. Prices were set in advance for 15/16 using a treasury forecast RPI of +2.6% compared to the actual RPI of 1.08%.

Note 3: Cost of Debt – Ofgem’s final proposals included a cost of debt allowance based on an IBOXX 10 year average index at 2.92%. NGN’s forecast index for 17/18 is 2.26% which results in an £8.8m reduction in revenue when compared with the original allowance.

Note 4: Tax Trigger – this relates to the change in corporate tax rates. When original allowances were set for 17/18 it assumed a corporation tax rate of 21%. The actual rate for 17/18 is 18% and the adjustment above relates to the impact on tax allowances over and above an adjustment “dead band”.

Note 5: Totex Incentive Mechanism – When we outperform totex allowances we have to return an element of this outperformance back to customers (36% for NGN). Totex outperformance is adjusted both in year (fast money) and also over 45 years (slow money). NGN outperformed allowances by 13.1% in 15/16 which results in money being returned in 17/18.

Note 6: FGO – Xoserve’s Funding, Governance & Ownership programme results in a reduction in Xoserve allowances from 17/18 onwards. After the reduction in expenditure allowances has gone through the revenue fast/slow money principles this results in a reduction in revenue of £1.1m.

Note 11: Exit Capacity - GDN’s are incentivised to reduce exit capacity bookings at their offtake sites. NGN bookings were 78 Gwh / 12.6% below target levels in 15/16 which results in £3.4m from the incentive collected 2 years after in 17/18.

Note 12: Stakeholder Engagement – NGN were awarded a stakeholder engagement score of 6.8 for 15/16 which results in incentive income of £1.2m collected 2 years after in 17/18.

Note 16: Discretionary Reward Scheme – There are only 2 windows for income to be awarded during RIIO-GD1 hence the zero figure above in 17/18. The next year when income could be collected is 19/20.

Note 17: Under / (Over) Collection – we aim to collect what we are “allowed” and set prices accordingly to collect the correct amount of revenue. The level of change in annual quantities has to be forecast when prices are published – any difference between this assumption and the actual change will result in revenue being under or over collected. In 14/15 we under collected by £2.8m compared with an under collection of £6.5m in 15/16. Any differences are adjusted for 2 years after.

Note 18: October 2016 AQ review – as detailed in note 17 changes to Annual Quantities (AQ) and Peak Day Demand (SOQ) have an impact on the amount of revenue actually collected. When demand drops we will collect less revenue and have to increase unit rates to compensate.

The October 2016 AQ review and load factor review had the opposite impact to what we have previously seen and forecast – our 16/17 unit rates had an assumption that peak day demand would fall by 3% whereas the final position was an increase of +1.7%. This has resulted in an over collection of income between October 2016 and March 2017 of +£9.7m.

As a consequence of an over collection during 16/17 we need to reduce our unit prices by more than the reduction year on year in allowed revenues.

Inflation: Included in the above numbers is an assumed inflation rate of 2.8% for 2017 and 3% for 2018 which is taken from the August HM Treasury report. When we publish our 60 day notice this will be updated to reflect RPI forecasts from the November report.

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 17/18 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 change 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.

4. Project Nexus Implementation Date

We are aware of the latest timetable for project nexus implementation and the associated impact on the charging principles which will move to a fixed demand base for pricing purposes. We have considered the impact on our collected revenues during 17/18 and have set our unit rates based on current methodology. This decision could mean we over recover during 17/18 in line with recent run rate, however this should limit the increase in NGN revenues 2 years later.

5. 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 1st April 2017

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

Charge band (kWh/annum)	Current (16/17)	Effective from 1 st April 2017
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.2053	0.1999
73,200 to 732,000	0.1765	0.1718
>732,000	$2.0703 \times \text{SOQ}^{-0.2834}$	$2.0156 \times \text{SOQ}^{-0.2834}$
Subject to a minimum rate of:	0.0054	0.0053
Minimum reached at SOQ of:	1,307,924,417	1,271,140,772

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

Charge band (kWh/annum)	Current (16/17)	Effective from 1 st April 2017
	Commodity p / kWh	Commodity p / kWh
Up to 73,200	0.0323	0.0314
73,200 to 732,000	0.0277	0.0270
>732,000	$0.3560 \times \text{SOQ}^{-0.294}$	$0.3466 \times \text{SOQ}^{-0.294}$
Subject to a minimum rate of:	0.0010	0.0010
Minimum reached at SOQ of:	476,871,484	435,384,183

LDZ Customer Capacity Charges

Charge band (kWh/annum)	Current (16/17)	Effective from 1 st April 2017
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
Up to 73,200	0.1096	0.1067
73,200 to 732,000	0.0039	0.0038
>732,000	$0.0836 \times \text{SOQ}^{-0.2100}$	$0.0814 \times \text{SOQ}^{-0.2100}$

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

Type of Supply Point	Current (16/17)	Effective from 1 st April 2017
	Fixed p / day	Fixed p / day
Non-monthly read supply points	34.44	33.53
Monthly read supply points	36.67	35.70

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

	Current (16/17)	Effective from 1 st April 2017
Charge per supply point	0.0829 pence per day (£0.30 per annum)	0.0755 pence per day (£0.28 per annum)

NTS Exit Capacity Charges recovered through the LDZ ECN Charge

Exit Zone	Current (16/17)	Effective from 1 st April 2017
	Capacity p / peak day kWh / day	Capacity p / peak day kWh / day
NE1	0.0096	0.0080
NE2	0.0011	0.0008
NE3	0.0011	0.0008
NO1	0.0016	0.0016
NO2	0.0072	0.0062

Appendix 2 – DN Entry Indicative Unit Rates 17/18

The following table shows the indicative unit rates for sites that are flowing gas or have flowed for 1 day. This has an assumed forecast volume for 17/18 which we are currently reviewing. We will update as necessary for our 60 day notice should there be any material differences. Should any additional new sites start to flow gas after this publication we will add them to our final 60 day pricing notice.

Site	Xoserve site name	Unit rate	Charge of Credit
Howdon	HOWDOS	0.04590	Charge
Leeming	LEEMOS	(0.03419)	Credit
Teeside	FOOTOS	(0.00967)	Credit
Cumbria	ASPAOS	(0.01826)	Credit
Agri Sherburn in Elmet	SHEROS	(0.03003)	Credit
Ridge Road Sherburn in Elmet	RIDGOS	0.01707	Charge
Burtos Agnes	BURTOS	0.03842	Charge
Emerald Biogas	NEWTOS	(0.01783)	Credit