

Indicative Gas Transportation Charges

From 1st April, 2023

This paper is being published consistent with our Licence condition to issue indicative charges 150 days before Final Charges are released. It should be noted the figures contained within these Indicative Charges utilise the March 2022 OBR forecast for inflation. Final Charges, published in January 2023, are expected to be updated to include the OBR forecast currently expected on November 17th 2022. This will potentially result in some significant changes in charges relative to this paper. We will keep the sector up-to-date on developments via the MOD186 forum.

For East of England, London, North West, and West Midlands Gas Distribution Networks



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Introduction

This notice provides the indicative gas transportation charges that will apply from 1st April 2023 for the East of England, London, North West, and West Midlands Gas Distribution Networks. This is in line with the Gas Transporter Licence requirement to provide 150 days' notice of such proposals. Notice of final Gas Distribution transportation charges will be published by 31st January 2023 in accordance with Gas Transporter Licence and Uniform Network Code [UNC] requirements.

Cadent has used the latest available information at the time of setting these indicative charges, however there are several key uncertainties that can result in price movements between the charges in the paper and the Final charges to be published on January 31st, 2023. These include, but are not limited to;

- Economic updates to be published in the Autumn OBR forecast, expected November 17th, 2022, impacting forecast inflation assumptions
- Shrinkage costs impacted by wholesale Gas Prices,
- Supplier of Last Resort up-dates relative to the minded-to position included and with reference to IGT cost allocations; and
- Ofgem's Annual Iteration Process up-dates for items including financing returns and Real Price Effects.



Uncertainties Ahead of Final Charge Setting

Our 2023/24 Allowed Revenue forecast for the indicative charge rates has been calculated utilising the latest available revenue setting model. However, at the time of publishing these indicative charges there are several key uncertainties that could cause final charges to differ from the rates used in this paper. These uncertainties include, but are not limited to;

- **Updated OBR Forecast;** at the time of publishing these indicative charges the Autumn OBR Forecast has been delayed to November 17th, 2022, and as such financials included in this paper uses the most recent OBR forecast produced in March 2022, as per Ofgem's guidance. This creates a year on year inflation rate of 3.3% which compares to latest forecast which point to significantly higher values. The Final Charges will include the November OBR forecast updates for inflation (should these be materially different to the charges noted in this paper) along with updates to Real Price Effects; as well as the calculation of financing costs.
- **Supplier of Last Resort costs ("SoLR");** Ofgem shared the minded-to position in relation to SoLR costs on 31 October 2022. Based on these figures Cadent have calculated unit charges in line with MOD0797 charging methodology. Charge split between domestic and IGT customers will be finalised in advance of Final Charges being set.
- **Shrinkage costs / Gas Prices;** Costs and resultant charges will be updated to reflect the latest Gas Price information if significantly different from current levels.
- **Demand;** unit rates will be updated to reflect the latest demand information released by Xoserve. The indicative charges are based on the latest available demand snapshot.

Ahead of Final charges, Cadent will provide an update to our Allowed Revenue and aggregated price change % impact in the December MOD0186 report. We expect this to incorporate a number of the key uncertainties mentioned above.

For awareness, we are working with Ofgem and the Gas Distribution networks to reconsider timing of this publication. Indicative Charges are currently published on November 1st each year. This is to comply with the Gas Transporter Licence indicative charging notice being 150 days' prior to the rates becoming live on 1st April the following calendar year.

In RIIO-GD2 Ofgem publishes the Price Control Financial Model (PCFM) and sets the GDNs Allowed Revenue at the end of November, after Indicative Charges have been released.

As such, an initial working group has been formed to consider revising the Licence condition stating Indicative Charges are due 150 prior to rates being set. The revision could see the 150 day notice period changed to 120 days. The desired effect of this is, it would reduce the quantity and magnitude of uncertainties and change between Indicative and Final Charges each year.

Average Indicative 2023/24 Price Change

A breakdown of the average indicative price change in gas distribution transportation charges relative to the previous year is shown in Table 2 below. The Final charges will be published by 31st January 2023, in line with the 60 days' notice requirements in advance of them becoming live on 1st April, 2023, as set out within the UNC.

The principal factors driving the aggregated price changes are:

- The expected movement in LDZ Allowed Revenue between 2022/23 and 2023/24. This is detailed out further in the section below, however the underlying changing in allowed revenue stems from; price inflation & legacy adjustments and timing true-ups
- The year on year movement in Allowed ECN Revenue results from the decrease in NTS unit rates passed through to the GDNs from the National Transmission System operated by National Grid.
- The vast majority of Gas Distribution charges are based on supply point peak day capacity requirements (SOQ). Supply point SOQs are influenced by underlying Annual Quantities (AQs), and for Class 3 and 4 sites, also by annual changes to EUC load factors. We are noting reductions in demand being noted across our networks, resulting in higher prices.

Table 1: 2023/24 average indicative price change (LDZ, ECN and SoLR)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE - LDZ	+3.9%	(11.1%)	+5.3%	(0.7%)
FORECAST CHANGES IN AGGREGATE DEMAND - LDZ	(3.8%)	(1.4%)	(4.3%)	(2.0%)
LOCAL DISTRIBUTION ZONE [LDZ] PRICE CHANGE	+7.7%	(9.7%)	+9.6%	+1.3%
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE - ECN	(42.4%)	(42.0%)	(27.0%)	(43.9%)
FORECAST CHANGES IN AGGREGATE DEMAND - ECN	(1.0%)	(0.0%)	+0.1%	+0.3%
EXIT CAPACITY NETWORK [ECN] PRICE CHANGE	(41.4%)	(42.0%)	(27.1%)	(44.2%)
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE - SoLR	(73.8%)	(73.6%)	(73.5%)	(73.8%)
FORECAST CHANGES IN AGGREGATE DEMAND - SoLR	(1.5%)	+1.5%	+1.7%	+0.8%
SUPPLIER OF LAST RESORT [SoLR] PRICE CHANGE	(72.3%)	(75.1%)	(75.2%)	(74.6%)

In the table above, a decrease in demand forecast increases unit prices and vice versa

The following chapter shows the year on year movement in the Allowed Revenue in more detail.

2023/24 Forecast Allowed Revenue

The movement in Allowed Revenue between 2022/23 and 2023/24 is a key factor contributing to the average indicative price change. As noted earlier in this paper, when publishing indicative prices, Allowed Revenue is not finalised and is therefore subject to change. Based on the information available at the time of publishing this notice and the assumptions described in the uncertainties section of this paper, the table below summarises the key movements in Allowed Revenue year on year. Equivalent tables for each Network can be seen in Appendix A:

Table 2: Year on year movement in Allowed Revenue (£m)

CADENT	LDZ	ECN	SOLR	TOTAL
22/23 PUBLISHED ALLOWED REVENUE	2,053.8	231.6	411.7	2,697.1
CUMULATIVE INFLATION (NOTE, 23/24 USES MARCH '22 OBR FORECAST)	181.1	-	-	181.1
PASS-THROUGH; EXIT CAPACITY: LOWER UNIT RATES	-	(18.7)	-	(18.7)
REDUCED VOLUME OF SOLR CLAIMS	-	-	(303.3)	(303.3)
LEGACY, TIMING, CORP. TAX RATE CHANGE, AND OTHER	(189.1)	(72.2)	-	(261.3)
INDICATIVE 23/24 ALLOWED REVENUE	2,045.8	140.7	108.4	2,294.9
MOVEMENT IN ALLOWED REVENUE	(7.9)	(90.9)	(303.3)	(402.3)
MOVEMENT IN AGGREGATED ALLOWED REVENUES - %	(0.4)%	(39.3)%	(73.7)%	(14.9)%

The key movements in revenue from 2022/23 are:

- Year on year increase to the annual **CPIH inflation** rate across all networks and charging types to uplift to 2023/24 prices. As stated earlier in this paper, the Indicative Charges use the March OBR forecast with monthly actual indexation to June 2022, this is in line with Ofgem's guidance. This equates to a year on year increase of 3.3%. We anticipate the Final Charges to use an OBR forecast expected to be released in November, the result of which could see higher inflation rates and therefore an increase to the inflation numbers stated in the table above, potentially in the range of £40-80m
- Based on National Grid's latest Transmission charges statement, their **Exit Capacity** pass-through costs are expected to be lower in 2023/24 compared to the prior year. Exit Capacity Allowed Revenue is also lower due to Legacy costs from the NTS ending in 2022/23 that impact GDN charges from April 2023.
- As stated in the uncertainties section of this paper, **Supplier of Last Resort** costs for 2023/24 are based on an Ofgem 'minded to' position, however they are anticipated to be significantly lower than the pass-through costs of 2022/23. SoLR unit rates for pricing, taking into account IGT and domestic customer demand numbers, will be finalised in advance of Final Charges being set in January 2023

- The current year (2022/23) was the final year of where revenues are impacted by “**Legacy**” true ups with a 2 year performance lag from RIIO-GD1. As returns and incentives are lower in RIIO-2 and as a result of these true up’s the 2023/24 revenues are significantly lower than 2022/23 in relation to these items.
- **Corporation Tax** has increased to 25% in 2023/24 from 19% in 2022/23. This increases Allowed Revenue in 2023/24 due to the increased Tax Allowance on Calculated Revenue items in that year
- Other timing and true-up adjustments are made which impact the year on year revenue trend. FY23/24 is impacted by Ofgem’s implementation of provisional values for the RIIO-GD1 close out. This is particularly significant in our London network where disposal proceeds were material in RIIO-1. Other timing items relate to totex performance which has been stronger than originally anticipated driven by on-going efficiencies being delivered.

Contact Details

If you have any questions or require any further information in relation to this notice please contact a member of the Cadent Revenue and Pricing Team:

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Appendix A: Movement in Allowed Revenue for 2023/24 at a Cadent Network Level

EAST OF ENGLAND	LDZ	ECN	SOLR	TOTAL
22/23 PUBLISHED ALLOWED REVENUE	674.4	95.0	152.1	921.5
CUMULATIVE INFLATION (NOTE; USES MARCH '22 OBR FORECAST)	59.5	-	-	59.5
PASS-THROUGH; EXIT CAPACITY: LOWER UNIT RATES	-	(7.1)	-	(7.1)
REDUCED VOLUME OF SOLR CLAIMS	-	-	(112.3)	(112.3)
LEGACY, TIMING, AND OTHER	(33.4)	(33.2)	-	(66.5)
INDICATIVE 23/24 ALLOWED REVENUE	700.5	54.7	39.9	795.1
MOVEMENT IN ALLOWED REVENUE	26.1	(40.3)	(112.3)	(126.4)

LONDON	LDZ	ECN	SOLR	TOTAL
22/23 PUBLISHED ALLOWED REVENUE	519.0	46.9	85.2	651.1
CUMULATIVE INFLATION (NOTE; USES MARCH '22 OBR FORECAST)	45.8	-	-	45.8
PASS-THROUGH; EXIT CAPACITY: LOWER UNIT RATES	-	(3.9)	-	(3.9)
REDUCED VOLUME OF SOLR CLAIMS	-	-	(62.6)	(62.6)
LEGACY, TIMING, AND OTHER	(103.1)	(15.9)	-	(119.0)
INDICATIVE 23/24 ALLOWED REVENUE	461.7	27.2	22.5	511.4
MOVEMENT IN ALLOWED REVENUE	(57.4)	(19.7)	(62.6)	(139.7)

NORTH WEST	LDZ	ECN	SOLR	TOTAL
22/23 PUBLISHED ALLOWED REVENUE	489.5	50.1	100.9	640.5
CUMULATIVE INFLATION (NOTE; USES MARCH '22 OBR FORECAST)	43.2	-	-	43.2
PASS-THROUGH; EXIT CAPACITY: LOWER UNIT RATES	-	(4.1)	-	(4.1)
REDUCED VOLUME OF SOLR CLAIMS	-	-	(74.2)	(74.2)
LEGACY, TIMING, AND OTHER	(17.2)	(9.4)	-	(26.6)
INDICATIVE 23/24 ALLOWED REVENUE	515.5	36.6	26.7	578.8
MOVEMENT IN ALLOWED REVENUE	26.0	(13.5)	(74.2)	(61.7)

WEST MIDLANDS	LDZ	ECN	SOLR	TOTAL
22/23 PUBLISHED ALLOWED REVENUE	370.8	39.5	73.6	484.0
CUMULATIVE INFLATION (NOTE: USES MARCH '22 OBR FORECAST)	32.7	-	-	32.7
PASS-THROUGH; EXIT CAPACITY: LOWER UNIT RATES	-	(3.6)	-	(3.6)
REDUCED VOLUME OF SOLR CLAIMS	-	-	(54.3)	(54.3)
LEGACY, TIMING, AND OTHER	(35.4)	(13.8)	-	(49.1)
INDICATIVE 23/24 ALLOWED REVENUE	368.2	22.2	19.3	409.6
MOVEMENT IN ALLOWED REVENUE	(2.7)	(17.4)	(54.3)	(74.3)

Appendix B: Indicative Transportation Unit Charge Rates from 1st April 2023

A supplementary accompanying spreadsheet with extractable unit rates has been produced. This can be found on the Joint Office of Gas Transporters website alongside this notice.

LDZ System Capacity Charges (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCA / 891 / 871	PENCE PER PEAK DAY KWH PER DAY			
UP TO 73,200 KWH PER ANNUM	0.2034	0.2247	0.2463	0.2171
73,200 KWH - 732,000 KWH PER ANNUM	0.1625	0.2004	0.2055	0.1958
732,000 KWH PER ANNUM AND ABOVE	1.0387 x SOQ ^ - 0.2155	1.2811 x SOQ ^ - 0.2133	1.6205 x SOQ ^ - 0.2483	2.399 x SOQ ^ - 0.2817
SUBJECT TO A MINIMUM RATE OF	0.0198	0.0220	0.0228	0.0213
MINIMUM RATE APPLIES AT SOQ OF (KWH)	95,637,051	188,574,162	28,679,278	19,191,321

LDZ System Commodity Charges (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCO / 878 / 893	PENCE PER KWH			
UP TO 73,200 KWH PER ANNUM	0.0343	0.0356	0.0391	0.0377
73,200 KWH - 732,000 KWH PER ANNUM	0.0273	0.0317	0.0329	0.0338
732,000 KWH PER ANNUM AND ABOVE	0.2183 x SOQ ^ -0.2376	0.2063 x SOQ ^ -0.2147	0.2862 x SOQ ^ -0.2586	0.4548 x SOQ ^ -0.2911
SUBJECT TO A MINIMUM RATE OF	0.0030	0.0030	0.0034	0.0033
MINIMUM RATE APPLIES AT SOQ OF (KWH)	68,614,542	361,314,422	27,839,814	22,337,951

LDZ Customer Capacity Charges

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CCA / 872	PENCE PER PEAK DAY KWH PER DAY			
UP TO 73,200 KWH PER ANNUM	0.1150	0.1426	0.1159	0.1023
73,200 KWH - 732,000 KWH PER ANNUM	0.0037	0.0051	0.0035	0.0034
732,000 KWH PER ANNUM AND ABOVE	0.0815 x SOQ ^ -0.21	0.1098 x SOQ ^ -0.21	0.08 x SOQ ^ -0.21	0.0785 x SOQ ^ -0.21

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

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CFI	PENCE PER DAY			
NON-MONTHLY READ SUPPLY POINTS	33.7459	45.0481	32.9700	32.4836
MONTHLY READ SUPPLY POINTS	35.9319	47.9661	35.1062	34.5876

ECN Charges by NTS Exit Zone (Direct Connects and CSEPS)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ECN / C04 / 901	PENCE PER PEAK DAY KWH PER DAY			
EA1	0.0191			
EA2	0.0191			
EA3	0.0191			
EA4	0.0191			
EM1	0.0191			
EM2	0.0192			
EM3	0.0192			
EM4	0.0192			

ECN Charges by NTS Exit Zone (Direct Connects and CSEPS)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ECN / C04 / 901	PENCE PER PEAK DAY KWH PER DAY			
NT1		0.0171		
NT2		0.0172		
NT3		0.0172		
NW1			0.0198	
NW2			0.0198	
WM1				0.0163
WM2				0.0163
WM3				0.0163

SUPPLIER OF LAST RESORT*

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LRI / LRD	PENCE / PEAK DAY Kwh			
DOMESTIC LOAD BANDS	0.02342	0.02333	0.02444	0.02177
NON-DOMESTIC LOAD BANDS	-	-	-	-

* The above charges are preliminary and will be subject to change as the IGT proportion of revenue is yet to be separated. The Final Charges paper in January will clarify details of the expected rate for domestic customers.

DN Entry Commodity Charge / Credit

The LDZ System Entry Commodity charge/credit 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 reductions. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis. The following table shows the indicative unit rates for sites that are currently flowing gas or are expected to start flowing before the end of 2023/24. Should any further sites start flowing after publication of final charges; these will be published via supplemental price notifications.

NETWORK	GEMINI ID	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH					
Adnams Brewery Southwold	ADBIOS	CHARGE	0.2637			
Attleborough		CREDIT	-0.0723			
Bay Farm	BAFMOS	CREDIT	-0.0045			
Beccles, Sotterley	SOTLOS	CREDIT	-0.0845			
Biodynamic	BIODOS	CREDIT	-0.1013			
Bonby	BONBOS	CREDIT	-0.0107			
Brigg Lane		CREDIT	-0.0138			
Chear Fen Farms, Chittering	CHITOS	CREDIT	-0.1054			
Derby	DERBOS	CREDIT	-0.0958			
Euston	LANKOS	CREDIT	-0.0111			
Fairfields Farm, Wormingford	FAIROS	CREDIT	-0.0030			
Glebe Farm		CREDIT	-0.0091			
Hemswell Cliff	HMWLOS	CREDIT	-0.0726			
Holkham, Norfolk	HOLKOS	CREDIT	-0.0076			
Ilkeston		CREDIT	-0.0946			
Lindholme, Doncaster	LINDOS	CREDIT	-0.0780			
Manor Farm, Alderton	MANROS	CREDIT	-0.1001			
Mepal	MEPAOS	CREDIT	-0.1013			
Metheringham MP / IP	METHOS	CREDIT	-0.0949			

Methwold	METWOS	CREDIT	-0.0057			
North Moor Farm, Crowle	MOOROS	CREDIT	-0.0610			
Pickenham Airfield		CREDIT	-0.0057			
Raynham Farm	RAYNOS	CREDIT	-0.0045			
Redbourne Road, Hibaldstow	HLBDOS	CREDIT	-0.1032			
Scampton	SCAMOS	CREDIT	-0.0733			
Stoke Bardolph	STOKOS	CREDIT	-0.0891			
Stoke Bardolph 2	STOBOS	CREDIT	-0.0813			
The Oaks		CREDIT	-0.0057			
Thorpe Arnold		CREDIT	-0.0124			
Welbeck Colliery, Meden Vale	WELLOS	CREDIT	-0.0986			
Westry	WSTYOS	CREDIT	-0.0097			
Dagenham	DGHMOS	CREDIT	-0.0677			
Bredbury Park, Stockport	BREDOS	CHARGE	0.0175			
Davyhulme, Urmston	DAVYOS	CREDIT		-0.0684		
Mogden		CREDIT		-0.0860		
Ellesmere Port		CREDIT			-0.0131	
Garth Road		CREDIT			-0.0805	
Granox, Widnes	WIDNOS	CREDIT			-0.0864	
Barnes Farm	BARNOS	CREDIT			-0.0078	
Coleshill	COLEOS	CREDIT			-0.0556	
Grindley House Farm	GRINOS	CREDIT				-0.0585
Hampton Bishop	HAMPOS	CREDIT				-0.0002
Highwood Farm, Brinklow	BRINKOS	CREDIT				-0.0002
Lower Drayton Farm	DRAYOS	CREDIT				-0.0875
Minworth 2	MIN2OS	CREDIT				-0.0946
Minworth Sewage Works	MINWOS	CREDIT				-0.0073

Roundhill	RNDHOS	CREDIT				-0.0928
Singleton Birch		CREDIT				-0.0730
Strongford	STRNOS	CREDIT				-0.0744
Sutton Lodge Farm		CREDIT				-0.0889
Finham	FINHOS	CREDIT				-0.0941