

## 2023/24 Indicative Statement

150-day notice of transportation charges effective from 1<sup>st</sup> April 2023

# Indicative Notice of LDZ Transportation Charges from 1 April 2023

#### 1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2023 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 2023 will be published by 31 January 2023, in line with the 60 days' notice requirements within the Uniform Network Code (UNC).

#### 2. Indicative Distribution Charges

- The LDZ price change for 2023/24 is an increase of **+16%**. This represents a **+10.1%** increase in revenue. An assumed drop in demand of 5.3% has been included within the unit rates to ensure we collect Revenue of £522m.
- The exit capacity price change for 2023/24 is a decrease of **(29.8%)**. This represents a +33.1% decrease in revenue. An assumed drop in demand of 5.3% has been included within the unit rates to ensure we collect Revenue of £38m.

Table 1 shows the year-on-year movement in Allowed Revenue. Prices are set to establish unit rates on 3 separate income streams as illustrated below for LDZ, Exit and Supplier of Last Resort charges.

| Table 1: Year on Year £ movements        | LDZ    | Exit    | SOLR    | Total  |
|--|--------|---------|---------|--------|
| 22/23 Allowed Revenue (nominal)          | 448.3  | 56.5    | 95.9    | 600.7  |
|  |        |         |         |        |
| Inflation                                | 25.4   |         |         | 25.4   |
| Corporation tax rate increase to 25%     | 23.6   |         |         | 23.6   |
| Pension deficit catch up from GD1        | 11.7   |         |         | 11.7   |
| Shrinkage                                | 2.5    |         |         | 2.5    |
| Other changes                            | (0.6)  | 0.4     |         | (0.2)  |
| Totex changes                            | (17.3) |         |         | (17.3) |
| GD1 Exit Legacy true ups                 |        | (13.1)  |         | (13.1) |
| Update to NTS Exit rates from Oct 22     |        | (6.1)   |         | (6.1)  |
| Reduction in SOLR claims                 |        |         | (71.9)  | (71.9) |
| 23/24 Allowed Revenue (nominal)          | 493.7  | 37.8    | 24.0    | 555.5  |
| Year on Year £ movement                  | 45.4   | (18.7)  | (71.9)  | (45.2) |
| Year on Year % movement                  | 10.1%  | (33.1%) | (75.0%) | (7.5%) |
| Price Change Breakdown                   |        |         |         |        |
| Year on Year AR % movement               | 10.1%  | (33.1%) | (75.0%) | (7.5%) |
| Capacity changes / under/over collection | 5.8%   | 3.4%    |         |        |
| Overall Price Change                     | 16.0%  | (29.8%) |         |        |



#### Supporting notes for the largest Allowed Revenue movements above:

- Shrinkage: Allowances have been calculated based on the latest prices available; this assumes a price per therm of £2.46 for 22/23 and £3.24 for 23/24. Prices remain volatile and can move significantly from week to week; the 150-day notice was prepared with forecasts from 28 October.
- Inflation: Included in the above numbers is an assumed CPIH inflation rate of 7.7% for 22/23 and 3.3% for 23/24 based on the Office for Budget Responsibility (OBR) forecasts compiled in March 2022.
- **Tax:** As per the latest government update on 14 October the Corporation Tax rate will increase from 19% to 25% from 1 April 2023. The above movement represents the increased tax charge.
- **Pension Deficit:** NGN allowances from 23/24 to 25/26 include revenue allowances to cover additional costs paid into the scheme during RIIO-GD1.
- Totex Changes: the largest reduction of £21m is for outperformance of Totex allowances in 21/22 which will be returned to customers during 23/24 via the Totex sharing mechanism.
- **GD1 Exit Legacy true ups:** The large movement year on year is due to 22/23 allowances including GD1 true ups.
- Supplier of Last Resort: within this update is an assumed £24m of Supplier of Last Resort claims.

#### 3. Uncertainties around Indicative Transportation Charges

There is usually minimal movement between indicative and final prices. However, there remains uncertainty on the following areas at the time of publication:

- Supplier of last resort (SOLR) Ofgem will provide the value of submitted claims for regulatory year 2023/24 by the end of October. Within the 150-day notice is an assumed value of £24m for expected claims, any differences will be included in the 60-day notice.
- NGN may submit further updates on shrinkage allowances to be included in the 60-day notice to reflect the very latest gas price Heren forecast.
- The dry run Annual Iteration Process (AIP) used to generate the 150-day notice, uses inflation
  forecast data as published in March 2022 OBR forecasts. Ofgem have confirmed that the OBR
  forecast published on 31 October will be used in the 60-day notice. Any material differences may
  result in a republication of the 150-day notice.
- SOQ/load factors change: Load factors are the relationship between Annual Quantities (AQ) and peak
  day demand. The method of collecting income is largely linked to peak day demand and as such is a
  critical measure in the accuracy of any price change needed. We have assumed a 5.2% decrease in
  capacity levels in 2023/24 largely driven by domestic customers. A final snapshot of capacity data will
  be available during the first week of December.
- Ofgem are yet to fully incorporate the detailed split between variant and non-variant allowances in the Price Control Financial Model (PCFM) as this requires a consultation exercise. This is not expected to generate a material difference and will be factored into 2023 Annual Iteration Process.
- In the current climate we have seen higher volumes of meter reading updates which may have contributed to the change in Annual Quantities. We may see further activity impacting AQ data before finalising the 60-day notice at the end of January.



#### 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 effective from 1<sup>st</sup> April 2023

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

|                               | Current (22/23)                    | Effective from 1st April 2023   |  |  |  |
|-------------------------------|------------------------------------|---------------------------------|--|--|--|
| Charge band (kWh/annum)       | Capacity<br>p / peak day kWh / day | Capacity p / peak day kWh / day |  |  |  |
| Up to 73,200                  | 0.2117                             | 0.2455                          |  |  |  |
| 73,200 to 732,000             | 0.1819                             | 0.2109                          |  |  |  |
| >732,000                      | 2.1343 X SOQ ^ -0.2834             | 2.4748 x SOQ ^ -0.2834          |  |  |  |
| Subject to a minimum rate of: | 0.0054                             | 0.0063                          |  |  |  |
| Minimum reached at SOQ of:    | 1,456,257,568                      | 1,425,097,551                   |  |  |  |

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

| Charge hand (I/Mh/annum)      | Current (22/23)        | Effective from 1st April 2023 |  |  |  |
|-------------------------------|------------------------|-------------------------------|--|--|--|
| Charge band (kWh/annum)       | Commodity<br>p / kWh   | Commodity p / kWh             |  |  |  |
| Up to 73,200                  | 0.0334                 | 0.0387                        |  |  |  |
| 73,200 to 732,000             | 0.0286                 | 0.0332                        |  |  |  |
| >732,000                      | 0.3670 X SOQ ^ -0.2940 | 0.4256 x SOQ ^ -0.2940        |  |  |  |
| Subject to a minimum rate of: | 0.0010                 | 0.0012                        |  |  |  |
| Minimum reached at SOQ of:    | 528,876,122            | 470,823,805                   |  |  |  |

#### **LDZ Customer Capacity Charges**

|                         | Current (22/23)  Capacity p / peak day kWh / day |  | Effective from 1st April 2023      |  |  |
|-------------------------|--|--|------------------------------------|--|--|
| Charge band (kWh/annum) |  |  | Capacity<br>p / peak day kWh / day |  |  |
| Up to 73,200            | 0.1130   |  | 0.1310                             |  |  |
| 73,200 to 732,000       | 0.0040   |  | 0.0046                             |  |  |
| >732,000                | 0.0863 X SOQ ^ -0.2100                           |  | 0.1001 x SOQ ^ -0.2100             |  |  |

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

| Type of Supply Point           | Current (22/23) | Effective from 1st April 2023 |  |  |  |
|--------------------------------|-----------------|-------------------------------|--|--|--|
| Type of ouppry Forme           | Fixed p / day   | Fixed p / day                 |  |  |  |
| Non-monthly read supply points | 35.5069         | 41.1717                       |  |  |  |
| Monthly read supply points     | 37.8066         | 43.8383                       |  |  |  |

## NTS Exit Capacity Charges recovered through the LDZ ECN Charge

| Fyit 7ana | Current (22/23)                    | Effective from 1st April 2023      |
|-----------|------------------------------------|------------------------------------|
| Exit Zone | Capacity<br>p / peak day kWh / day | Capacity<br>p / peak day kWh / day |
| NE1       | 0.0293                             | 0.0199                             |
| NE2       | 0.0330                             | 0.0080                             |
| NE3       | 0.0330                             | 0.0080                             |
| NO1       | 0.0299                             | 0.0205                             |
| NO2       | 0.0276                             | 0.0188                             |

### **Supplier of Last Resort Charges**

| Type of Supply Point | Current (22/23) | Effective from 1st April 2023 |
|----------------------|-----------------|-------------------------------|
| Type of Supply Come  | Fixed p / day   | Fixed p / day                 |
| Domestic sites       | 0.0712          | 0.0201                        |

## Appendix 2 – DN Entry Indicative Unit Rates 23/24

The following table shows the indicative unit rates for sites that are flowing gas or have flowed for 1 day. Should any additional new sites start to flow gas after this publication or volumes forecasts change significantly, we will adjust in our final 60-day pricing notice.

| Xoserve   |                               | Charge<br>Code: LEC | (IIrrent (77/73) |                  | Current (22/23) |  |                  | Effective from 1st April 2023     |  |
|-----------|-------------------------------|---------------------|------------------|------------------|-----------------|--|------------------|-----------------------------------|--|
| Site name | Site Name                     | Go Live Date        |                  | Pence per<br>kWh | · Charge of     |  | Pence per<br>kWh | Unit Rate:<br>Charge or<br>Credit |  |
| HOWDOS    | Howdon                        | 17/02/2015          |                  | (0.04787)        | Credit          |  | (0.03960)        | Credit                            |  |
| FOOTOS    | Teeside                       | 29/09/2015          |                  | (0.01497)        | Credit          |  | 0.03671          | Charge                            |  |
| LEEMOS    | Leeming                       | 22/12/2015          |                  | 0.00113          | Credit          |  | 0.01582          | Charge                            |  |
| ASPAOS    | Cumbria                       | 31/05/2016          |                  | (0.01184)        | Credit          |  | (0.00814)        | Credit                            |  |
| RIDGOS    | Ridge Rd Sherburn in<br>Elmet | 21/07/2016          |                  | 0.01892          | Charge          |  | 0.04079          | Charge                            |  |
| SHEROS    | Agri Sherburn in<br>Elmet     | 01/12/2016          |                  | (0.03957)        | Credit          |  | (0.02680)        | Credit                            |  |
| GRAVOS    | Gravel Pit                    | 06/12/2016          |                  | (0.00356)        | Credit          |  | 0.02049          | Charge                            |  |
| NEWTOS    | Emerald Biogas                | 08/12/2016          |                  | (0.05667)        | Credit          |  | (0.06216)        | Credit                            |  |
| BURTOS    | Burtos Agnes                  | 18/01/2017          |                  | 0.02741          | Charge          |  | 0.04758          | Charge                            |  |
| LANEOS    | Lanes Farm                    | 14/10/2019          |                  | (0.05800)        | Credit          |  | (0.05158)        | Credit                            |  |
| SPALOS    | Spaldington                   | 22/10/2019          |                  | 0.00585          | Charge          |  | 0.02616          | Charge                            |  |
| BRANOS    | Bran Sands                    | 28/11/2019          |                  | (0.06060)        | Credit          |  | (0.05328)        | Credit                            |  |
| WARDOS    | Wardley                       | 09/12/2019          |                  | 0.00061          | Credit          |  | 0.02488          | Charge                            |  |
| PARKOS    | Park Farm                     | 18/12/2019          |                  | (0.01574)        | Credit          |  | (0.02323)        | Credit                            |  |
| PLAXOS    | Plaxton Bridge                | 24/01/2020          |                  | 0.27814          | Charge          |  | 0.13377          | Charge                            |  |
| HEDLOS    | High Hedley                   | 29/01/2020          |                  | 0.13273          | Charge          |  | (0.00377)        | Credit                            |  |
| MILLOS    | Mill Nurseries                | n/a                 |                  | n/a              | n/a             |  | n/a              | n/a                               |  |
| CRAMOS    | Cramlington                   | 29/03/2022          |                  | n/a              | n/a             |  | (0.02536)        | Credit                            |  |
| DRIFIOS   | Driffield                     | 04/05/2022          |                  | n/a              | n/a             |  | (0.04278)        | Credit                            |  |