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Final Gas Distribution Transportation Charges

From 1st April, 2023

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

Issued 31st January, 2023

Contents

Introduction

This notice confirms the gas transportation charges that will apply from 1 April 2023 for the East of England, London, North West, and West Midlands Gas Distribution networks. In line with the Gas Transporter Licence and Uniform Network Code requirements, this notice is provided a minimum of 60 days prior to implementation.

Further to our Indicative price notification in early November 2022, citing Part B of Special Condition 8.2 within the Gas Transporter Licence, in January Ofgem re-published the Allowed Revenue figures for 2023/24 taking into account latest information pertaining to the uncertainties previously raised. This new information includes:

- An updated assessment of the Supplier of Last Resort (SoLR) position now valued at £112m;
- Updated view of Gas Prices for Shrinkage costs;
- Update to tax allowance following an increase in corporation tax rates;
- Updates to allowances and macro data following the release of the November OBR forecast; and
- Updates to business rates based on the latest rateable value assessment.

In addition, pricing is up-dated to reflect updated demand data including Supply Point Capacity (SOQ) and Annual Quantity (AQ).

For full details of the unit prices by network please refer to Appendix B.

The year-on-year price change for each distribution network from 1 April 2023 is illustrated in Table 1. This price change excludes Supplier of Last Resort (SOLR) which is detailed later in this paper.

Table 1: Transportation Price Changes from 1st April 2023 (excl. SoLR)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ PRICE CHANGE	+14.0%	(5.7%)	+17.1%	+5.6%
ECN PRICE CHANGE	(39.9%)	(39.5%)	(23.0%)	(42.0%)

The changes are driven by year on year movement in allowed revenue and changes in demand linked to movements in supply point peak capacity requirements inclusive of load factors. These are explained in further detail within this notice.

Average 2023/24 Price Change

The drivers for the average gas distribution price change from 1st April 2023 are shown in Table 2 below. The principal factors driving these changes are:

- Year on year movement in Allowed Revenue between 2022/23 and 2023/24 is calculated in accordance with the Gas Transporter Licence where revenues are allowed by Ofgem. The most significant driver for the Allowed Revenue increases are in relation to macro variables including high levels of inflation, an increase in the corporation tax rate and higher interest rates. The 2023/24 year also includes 'true-ups' in relation to the higher actual inflation rate expected for 22/23 when compared to the rates used when setting 22/23 charges. These revenue increases are offset by lower pass through costs in relation to gas volumes and Prices (again correcting for the lower spend incurred in the 22/23 year and a forecast for price to remain lower in 23/24), lower business rates, efficiency improvements and reductions from revenues earned in RIIO-1 no longer being applied.

- There has been a significant reduction in the peak day capacity requirements (SOQs) driven by underlying changes to rolling Annual Quantities (AQs). This results in an increase in unit rate.

Table 2: 2023/24 Average price changes in nominal prices excluding SoLR

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	+6.2%	(10.6%)	+7.3%	+0.6%
FORECAST CHANGES IN AGGREGATE DEMAND - LDZ	+7.8%	+4.9%	+9.8%	+5.0%
LOCAL DISTRIBUTION ZONE [LDZ] PRICE CHANGE	+14.0%	(5.7%)	+17.1%	+5.6%
YEAR ON YEAR MOVEMENT IN ALLOWED REVENUE	(42.5%)	(42.1%)	(27.2%)	(44.1%)
FORECAST CHANGES IN AGGREGATE DEMAND - ECN	+2.6%	+2.6%	+4.1%	+2.0%
EXIT CAPACITY NETWORK [ECN] PRICE CHANGE	(39.9%)	(39.5%)	(23.0%)	(42.0%)

The 2023/24 transportation unit rates are shown in full in Appendix B.

Movement since Indicative Charges

Since the Indicative Charges were issued on November 1st, 2022 there have been a number of adjustments to revenues and demand as signalled at the time. This is a result of the macro changes noted above. Ofgem has also published Supplier of Last Resort ("SoLR") costs which are significantly lower than 2022/23 with a value of £112m now confirmed. These costs are being charged in accordance with the recently approved Uniform Network Code modification (MOD0809) which confirms that this costs to be recovered across all customer connections including IGTs. These costs are being charged to domestic customers.

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2023/24 Allowed Revenue

The movement in Allowed Revenue between 2022/23 and 2023/24 is a key factor contributing to the average price change. A trace between Allowed Revenue for 2022/23 and 2023/24 is shown in table 3 below. Further analysis of the 2023/24 Allowed Revenue, broken down by components can be found in **Appendix A**.

Table 3: Year on Year Movement in Allowed Revenue (£m)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
2022/23 PUBLISHED ALLOWED REVENUE (excl. SoLR)	**769.4**	**566.0**	**539.6**	**410.4**
INFLATION - CPIH - USING OBR NOVEMBER 2022 FORECAST	91.4	62.5	65.1	48.1
ADJUSTMENT TERM, 'K' CORRECTION, & LEGACY	(24.5)	(32.2)	(2.0)	(4.1)
HIGHER RETURN ON CAPITAL	11.4	8.3	8.1	6.1
TAX ALLOWANCE (MOVE TO 25% CT + TRUE-UP)	22.4	22.8	22.4	19.1
LOWER SHRINKAGE PASS THROUGH COST	(26.8)	(14.3)	(18.9)	(16.8)
LOWER BUSINESS RATES (RV)	(13.8)	(7.8)	(9.2)	(6.7)
LOWER EXIT CAPACITY COST	(20.4)	(11.8)	(11.4)	(10.0)
OTHER PASS THROUGH COSTS (excl SoLR)	(23.2)	(26.0)	(17.7)	(19.2)
TOTEX ASSUMPTIONS & PROVISIONAL RIIO-1 DISPOSALS	(10.8)	(73.6)	(11.8)	(29.9)
OTHER INDIVIDUALLY LOWER VALUE ITEMS	(4.2)	(2.5)	(2.5)	(1.9)
2023/24 ALLOWED REVENUE (excl. SoLR)	**770.8**	**491.3**	**561.6**	**395.0**
% CHANGE IN ALLOWED REVENUE (excl. SoLR)	**0.2%**	**(13.2)%**	**4.1%**	**(3.8)%**

2022/23 PUBLISHED ALLOWED REVENUE (inc. SoLR)	**921.5**	**651.1**	**640.5**	**484.0**
CHANGE IN LDZ	42.2	(55.3)	35.4	2.1
CHANGE IN ECN	(40.7)	(19.2)	(13.5)	(17.6)
CHANGE IN SUPPLIER OF LAST RESORT	(111.1)	(62.0)	(73.4)	(53.6)
2023/24 ALLOWED REVENUE (inc. SoLR)	**811.9**	**514.5**	**589.0**	**415.0**
% CHANGE IN ALLOWED REVENUE	**(11.9)%**	**(21.0)%**	**(8.0)%**	**(14.2)%**

More detailed comments on the drivers of the revenue increases are provided below:

- **Inflation:** The 2023/24 Final Charges use the November 2022 OBR forecast. A large component of inflation in the table above relates to higher actual inflation in 2022/23 compared to the forecast rate used when setting final charges in 2022/23.
- The **lower Adjustment Term and legacy** relates to RIIO-GD2 and 2 year lagged legacy values from RIIO-1 falling out of the revenue base.
- **Higher Tax Allowance** following an increase in corporation tax rate from 19% to 25% coming into effect from 1st April 2023.
- **UK gas prices** fluctuated significantly during 2022/23. Forecasting these rates forward into 2023/24 through Shrinkage pass-through costs drives a decrease to Allowed Revenue. Additionally, truing-up costs used for setting 2022/23 charges is a significant component of the lower Adjustment term, and therefore also affects charges in 2023/24.
- **Lower Business Rates** following negotiations with Valuation Authorities regarding business rates, a lower rateable value for the network has been agreed, thereby reducing pass through costs.
- Year on year **lower Exit Capacity** pass-through cost derived from a decrease in NTS unit rates for ECN charging. National Grid published their unit rate charges for future years with 2023/24 expecting to be lower than in FY22/23.
- There is a **lower level of Totex** as Cadent continue to deliver operating efficiencies. We have included a provisional close out adjustment in relation to disposal of assets from RIIO-1, particularly impacting the London network.
- As instructed by Ofgem, and as set out in our Indicative Charges, the recovery **of Last Resort Supplier Payment costs** includes claims received up to December 2022. These are significantly lower than the claims received in the previous financial year as described below.

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2023/24 Supplier of Last Resort

As per Ofgem direction, included within 2023/24 Allowed Revenue are costs to recover Last Resort Supplier Payments (LRSP) for claims that were received up to the end of December 2022. The total costs associated with allowed SoLR claims has been agreed by Ofgem.

SoLR amounts are significantly lower than 2022/23 with a value of £112m confirmed by Ofgem. In accordance with the recently approved Uniform Network Code modification (MOD0809) these costs are recovered across all customer connections including Independent Gas Transporters (“IGTS”) with a single unit rate to be applied. As previously directed by Ofgem, 100% of these costs are to be charged to domestic load bands.

Further detail on the UNC modification 0809 can be read on the Joint Office website, with the link provided below;
Final Modification Report 0809 v2.0 (appended reps).pdf (gasgovernance.co.uk)
The following table shows the rates associated to Supplier of Last Resort costs in 2023/24.

Table 4: Aggregated rate for all SoLR claims per Network

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LRI / LRD	PENCE PER DAY			
LRSP DOMESTIC CHARGE	0.0223	0.0233	0.0242	0.0214
LRSP INDUSTRIAL CHARGE	0.0000	0.0000	0.0000	0.0000

Table 5: Ofgem direct total allowed SoLR claim value and SOQ data per Network

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
SUPPLIER OF LAST RESORT CLAIMS (£m)	41.1	23.1	27.4	20.0
DOMESTIC PEAK DAY SOQ APPLIED	505,423,465	271,326,205	310,184,051	257,070,681

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Charging Methodology

The current charging methodology requires that revenue is recovered to a pre-determined Distribution Network (DN) specific splits between System and Customer charges, and then a further 95/5 sub-split of System charges between Capacity and Commodity. The Customer element is comprised of Capacity and Fixed charges. Unit charges are re-balanced between these categories, and at load band level. This causes individual elements of the transportation charges to change by varying levels around these average positions.

Table 6 below confirms target revenue splits achieved against the UNC. All the percentages in this section exclude Supplier of Last Resort costs.

Table 6: Target Revenue Splits set out in the UNC

TARGET REVENUE SPLIT REQUIRED BY UNC	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ SYSTEM COMMODITY %	5.0%	5.0%	5.0%	5.0%
LDZ SYSTEM CAPACITY %	95.0%	95.0%	95.0%	95.0%
LDZ SYSTEM %	70.5%	68.1%	73.7%	74.0%
LDZ CUSTOMER %	29.5%	31.9%	26.3%	26.0%

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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: 2023/24 Allowed Revenue (£m), Nominal Price Base

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
TOTEX (inc. RAV RETURN & DEPRECIATION)	526.1	394.2	377.6	280.5
PASS THROUGH COSTS (excl. SoLR)	175.8	94.4	116.9	88.9
OUTPUT DELIVERY INCENTIVES	3.4	2.2	2.8	1.4
SUPPLIER OF LAST RESORT	41.1	23.1	27.4	20.0
TAX ALLOWANCE	62.9	45.6	47.5	37.1
OTHER COMPONENTS OF CALCULATED REVENUE	6.5	3.6	4.3	3.2
CALCULATED REVENUE	**815.7**	**563.0**	**576.5**	**431.0**
LEGACY ADJUSTMENTS	(0.5)	(7.1)	(0.6)	(0.9)
ADJUSTMENT TERM + 'K' FACTOR	(3.3)	(41.5)	13.1	(15.1)
2023/24 ALLOWED REVENUE (incl. SoLR)	**811.9**	**514.5**	**589.0**	**415.0**

COLLECTED REVENUE FORECAST	**811.7**	**514.3**	**588.8**	**414.9**
% OVER / (UNDER) RECOVERY	(0.0)%	(0.0)%	(0.0)%	(0.0)%

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

In response to feedback from stakeholders we have produced a supplementary accompanying spreadsheet with extractable unit rates which 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 / 871 / 891	PENCE PER PEAK DAY KWH PER DAY			
UP TO 73,200 KWH PER ANNUM	0.2131	0.2323	0.2594	0.2234
73,200 KWH - 732,000 KWH PER ANNUM	0.1703	0.2072	0.2165	0.2016
732,000 KWH PER ANNUM AND ABOVE	1.0882 x SOQ ^ -0.2155	1.3242 x SOQ ^ -0.2133	1.7068 x SOQ ^ -0.2483	2.4694 x SOQ ^ -0.2817
SUBJECT TO A MINIMUM RATE OF	0.0208	0.0228	0.0240	0.0220
MINIMUM RATE APPLIES AT SOQ OF (KWH)	94,439,267	186,264,476	28,747,764	18,960,264

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	0.0363	0.0371	0.0415	0.0389
73,200 KWH - 732,000 KWH PER ANNUM	0.0288	0.0331	0.0349	0.0349
732,000 KWH PER ANNUM AND ABOVE	0.2305 x SOQ ^ -0.2376	0.2152 x SOQ ^ -0.2147	0.3037 x SOQ ^ -0.2586	0.4704 x SOQ ^ -0.2911
SUBJECT TO A MINIMUM RATE OF	0.0032	0.0031	0.0036	0.0034
MINIMUM RATE APPLIES AT SOQ OF (KWH)	65,742,940	377,566,818	28,076,700	22,637,112

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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	0.1203	0.146	0.1226	0.1056
73,200 KWH - 732,000 KWH PER ANNUM	0.0039	0.0052	0.0037	0.0035
732,000 KWH PER ANNUM AND ABOVE	0.0853 x SOQ ^ -0.21	0.1125 x SOQ ^ -0.21	0.0846 x SOQ ^ -0.21	0.0811 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	35.3098	46.1289	34.8725	33.5285
MONTHLY READ SUPPLY POINTS	37.5971	49.1168	37.1320	35.7002

Optional LDZ Charge for all Networks

ALL NETWORKS	
CHARGE CODE: 881	PENCE PER PEAK DAY KWH PER DAY
OPTIONAL LDZ FUNCTION	$902 \times [(SOQ)^{\wedge -0.834}] \times D + 772 \times (SOQ)^{\wedge -0.717}$

Please note the Optional LDZ Charge remains unchanged from 2018/19.

SUPPLIER OF LAST RESORT

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LRI / LRD	PENCE / PEAK DAY Kwh			
DOMESTIC LOAD BANDS	0.0223	0.0233	0.0242	0.0214
NON-DOMESTIC LOAD BANDS	0.0000	0.0000	0.0000	0.0000

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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	0.0196			
EA2	0.0196			
EA3	0.0196			
EA4	0.0196			
EM1	0.0196			
EM2	0.0197			
EM3	0.0197			
EM4	0.0197			
NT1		0.0190		
NT2		0.0191		
NT3		0.0191		
NW1			0.0204	
NW2			0.0204	
WM1				0.0164
WM2				0.0164
WM3				0.0164

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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 unit rates for sites that are currently flowing gas or are expected to start flowing before the end of 2023/24.

NETWORK	GEMINI ID	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH					
Adnams Brewery Southwold	ADBIOS	CHARGE	0.2691			
Attleborough		CREDIT	-0.0772			
Bay Farm	BAFMOS	CREDIT	-0.0046			
Beccles, Sotterley	SOTLOS	CREDIT	-0.0890			
Biodynamic / Colwick	BIODOS	CREDIT	-0.1070			
Bonby	BONBOS	CREDIT	-0.0109			
Brigg Lane		CREDIT	-0.0141			
Chear Fen Farms, Chittering	CHITOS	CREDIT	-0.1112			
Chittering 2		CREDIT	-0.1081			
Derby	DERBOS	CREDIT	-0.1013			
Euston	LANKOS	CREDIT	-0.0114			
Fairfields Farm, Wormingford	FAIROS	CREDIT	-0.0031			
Fernbrook		CREDIT	-0.1042			
Glebe Farm		CREDIT	-0.0093			
Hemswell Cliff	HMWLOS	CREDIT	-0.0767			
Holkham, Norfolk	HOLKOS	CREDIT	-0.0078			
Ilkeston		CREDIT	-0.1001			
Lindholme, Doncaster	LINDOS	CREDIT	-0.0823			
Manor Farm, Alderton	MANROS	CREDIT	-0.1057			
Mepal	MEPAOS	CREDIT	-0.1070			

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NETWORK	GEMINI ID	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH					
Metheringham MP / IP	METHOS	CREDIT	-0.1001			
Methwold	METWOS	CREDIT	-0.0058			
North Moor Farm, Crowle	MOOROS	CREDIT	-0.0648			
Pickenham Airfield		CREDIT	-0.0058			
Raynham Farm	RAYNOS	CREDIT	-0.0046			
Redbourne Road, Hibaldstow	HLBDOS	CREDIT	-0.1090			
Scampton	SCAMOS	CREDIT	-0.0779			
Stoke Bardolph	STOKOS	CREDIT	-0.0945			
Stoke Bardolph 2	STOBOS	CREDIT	-0.0857			
The Oaks		CREDIT	-0.0058			
Thorpe Arnold		CREDIT	-0.0127			
Welbeck Colliery, Meden Vale	WELLOS	CREDIT	-0.1042			
Westry	WSTYOS	CREDIT	-0.0099			
Sutton Lodge Farm		CREDIT	-0.1142			
Singleton Birch		CREDIT	-0.0772			
Wellington Lodge Farm		CREDIT	-0.0031			
Dagenham	DGHMOS	CREDIT		-0.0718		
Mogden	MOGDOS	CREDIT		-0.0908		
Bredbury Park, Stockport	BREDOS	CHARGE			0.0155	
Davyhulme, Urmston	DAVYOS	CREDIT			-0.0728	
Ellesmere Port		CREDIT			-0.0135	
Garth Road		CREDIT			-0.0853	
Granox, Widnes	WIDNOS	CREDIT			-0.0913	

Barnes Farm	BARNOS	CREDIT				-0.0077
Coleshill	COLEOS	CREDIT				-0.0571
Grindley House Farm	GRINOS	CREDIT				-0.0601
Hampton Bishop	HAMPOS	CHARGE				0.0002

NETWORK	GEMINI ID	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH					
Highwood Farm, Brinklow	BRINKOS	CHARGE				0.0002
Lower Drayton Farm	DRAYOS	CREDIT				-0.0899
Minworth 2	MIN2OS	CREDIT				-0.0973
Minworth Sewage Works	MINWOS	CREDIT				-0.0072
Roundhill	RNDHOS	CREDIT				-0.0954
Strongford	STRNOS	CREDIT				-0.0764
Sutton Lodge Farm		CREDIT				-0.0914
Finham	FINHOS	CREDIT				-0.0967