

Southern Gas Networks Indicative Notice of Change to Transportation Charges from 1 April 2024



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1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2024, in line with our Gas Transporter Licence requirement to provide 150 days' notice of such proposals.

Due to the timing of the published indicative tariffs, in conjunction with the GD2 Annual Iteration Process (AIP) timeline, which distribution networks undertake with Ofgem until early January, there are a number of components that could have significant impact on tariffs between the published indicative view and the final published position. One of these is the Office of Budget Responsibility (OBR) forecast, which calculates the inflation element of networks revenues and is due to be published on 23 November, and is therefore not included in the indicative view of 2024/25 tariffs.

The definitive notice of distribution transportation charges from 1 April 2024 will be published by 1 February 2024, in accordance with the two months' notice requirement within the UNC.

2 Indicative changes to Distribution Transportation Charges on 1 April 2023

The average change to charge levels from 1 April 2024 is forecast to be a decrease of 11.9%.

The levels of charges have been constructed based on the latest available forecasts of the Allowed and Collected Revenues for 2024/25, which are still subject to change.

The key movements of the indicative price change which includes revenue associated with both SoLR and NTS Exit Capacity charges are set out below:

	% Movement
Calculated "Base" revenue	0.9%
Pass through costs	-8.2%
Inflation impact (incl. true up)	0.9%
GD1 Legacy adjustments	0.0%
K correction factor	-0.6%
ADJ term (excl. inflation)	-13.4%
Impact of demand forecast	8.4%
Total movement	-11.9%

- Calculated "Base" revenue increase is largely due the agreement with Ofgem to reallocate a proportion of the fuel pool allowed to VCMA. This is partly offset by a reduction in Totex spend and tax allowance.
- The reduction in pass through costs is attributable shrinkage costs due to the reduction in wholesale gas prices and also NTS costs based on National Grids latest published prices. Costs also include Ofgem's recent 'minded to' position for 2024/25 SoLR claims, which result in a material decrease in SoLR claims compared to 2023/24.

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- Increase in inflation is as result of a true up of forecast 2023/24 inflation compared to the forecast included within last ~~years~~year’s tariffs. This is in addition to a forecast of 2024/25 inflation based on OBR March 2023 forecast.
- The material reduction of the adjustment term, resulting from amendments to prior years forecasts, is primarily due to a forecast of shrinkage costs associated with 2023/24 being returned in 2024/25 tariffs. There is also a significant reduction in NTS costs for 2023/24 which will again be returned in 2024/25. The final material impact is the reduction in forecast tax allowance based on an updated view of the Governments Tax Super Deduction scheme for 2022/23 and 2023/24.
- The impact of the demand forecast is higher than usual this year, this is due to a significant reduction in AQ/SOQs. This reduction in demand is in part a result of the high gas prices the UK has experienced over the past 18 months.

3 Uncertainties Impacting April 2024 Final Transportation Charges

At this stage there are still significant uncertainties which will inevitably cause the actual change in the charges, which will be published on 1 February 2024, to be different from the indicative change.

The major uncertainties are:-

- The OBR October inflation forecast due to be published on 23 November;
- The extent of final SoLR claims;
- The cost of wholesale gas affecting shrinkage pass through costs;
- The level of future supply point capacity and numbers (aggregate demand);

4 LDZ Indicative Unit Charge Rates from 1 April 2024

Average LDZ Indicative Unit Rates Change	-7.5%
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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%). Listed below are two sets of rates, one indicates SGN BP view and the other Ofgem’s DD.

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

Charge Band (kWh/annum)	Capacity p/peak day kWh
Up to 73,200	0.2283
73,200 to 732,000	0.1812
>732,000	2.3808 x SOQ ^ -0.2970
Subject to a minimum rate	0.0046

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

Charge Band (kWh/annum)	Commodity p/kWh
Up to 73,200	0.0374
73,200 to 732,000	0.0296
>732,000	$0.4475 \times \text{SOQ}^{-0.3129}$
Subject to a minimum rate	0.0009

LDZ Customer Capacity Charges

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.1071
73,200 to 732,000	0.0043
>732,000	$0.0898 \times \text{SOQ}^{-0.21}$

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

Supply Point Type	p/day
Non-monthly read supply points	36.9791
Monthly read supply points	39.3749

5 Supplier of Last Resort Charges

Due to the volatility in the gas market and significant increases in wholesale gas prices throughout 2021 and 2022, there has been a significant number of Suppliers failures. As Ofgem has an obligation to ensure gas continues flowing for all customers, they operate the Supplier of Last Resort (SoLR process). This allows other Suppliers to bid for the customer base of the failed Supplier and if successful and subject to approval from Ofgem, claim associated costs from the wider industry.

It is the responsibility of Southern Gas Network to recover the costs incurred by the SoLR provider and to pass those onto the new Supplier as set out under Standard Special Condition A48 of the transportation licence. Southern Gas Network collects these costs on a volumetric basis as guided by UNC modification 0797. The SoLR costs impacting 2024/25 charges are forecast to be -£0.8m. There are several claims, some of which are positive and others which are negative, the overall impact this year currently forecast to be a negative impact on revenues. These are a straight passthrough therefore only reflect the level of costs DNs need to subsequently pass onto the wider shipper community.

LDZ Supplier of Last Resort Charges

Charge Code	LRD & LRI
Supply Point Volume Charge	Daily Rate p/p KWh
Domestic	-0.0004
I&C	-

6 April 2024 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 twenty sites located within Southern Gas Networks.

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.

Site Name	GEMINI Reference	Distributed Gas Commodity Rate(p/kWh)
Albury	ALBROS	0.1049 (credit)
Poundbury Biomass	POUNOS	0.1044 (credit)
Portsdown Hill Tanker Hub	POR1-5OS	0.0170 (credit)
Apsley Farm	APSLOS	0.0889 (credit)
Blackpitts Brackley	HELMOS	0.1048 (credit)
Gorebasin Isle of Wight	WIGHOS	0.1048 (credit)
Ickneild Farm	ICKNOS	0.0890 (credit)
St Nicholas Court Farm	NICHOS	0.1046 (credit)
Riverside AD Mitcham	MITCOS	0.1047 (credit)
Arla (Olleco) Aylesbury	ARLAOS	0.1049 (credit)
Ebbsfleet Farm	EBBSOS	0.1047 (credit)
Hill Farm Reading	HILLOS	0.0889 (credit)
Banbury Tanker Hub	BANBOS	0.0173 (credit)
Newton Longville Tanker Hub	NETNOS	0.0173 (credit)
Kemsley	KEMYOS	0.0890 (credit)
Blaise Farm	BLAIOS	0.0889 (credit)
Court Lodge Farm	FAWKOS	0.1047 (credit)
Friday's Farm	FRITOS	0.1048 (credit)
Sheppey	SHEPOS	0.1047 (credit)
Dunsfold	DFLDOS	0.1047 (credit)

7 Methodology Changes

There are currently no amendments to the transportation charging methodology that will impact on charges for the period 1 April 2024 to 31 March 2025.

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

pricing.team@sgn.co.uk

8 Distribution Network (NTS) Exit Capacity Charges (ECN)

Following the implementation of Uniform Network Code (UNC) modification 0195AV industry arrangements for the charging of NTS Exit Capacity costs changed on the 1 October 2012. National Grid Transmission invoice gas Distribution Networks (DNs) for booked NTS Exit Capacity and DN will invoice gas shippers in line with DNPC06 ("Proposals for LDZ Charges to Recover NTS Exit Capacity Charges).

9 Exit Capacity Indicative Charges (ECN) 1 April 2024

The change to charge levels from 1 April 2024 is forecast to be an average decrease of 19.1%.

Southern Gas will continue to recover the charges in line with DNPC06D (i.e. at individual Exit zone level). This provides the optimum cost-reflectivity as it will more closely reflect the charges which DN will be paying to the NTS, therefore better meets the relevant objective SSC A5(5)(a).

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 1 October 2023 for the period April to September 2024. The indicative October 2024 rates for the period October 2024 to March 2025, published on 30 April 2023.

Table 1 below shows the indicative charge rates set to recover the 2024/25 NTS Exit Capacity base allowance, 2022/23 and 2023/24 forecast K carried forward and cost allowance adjustments for Southern.

Table 1: April 2024 Indicative NTS Exit Capacity (ECN) Charge Rate

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SO1	0.0150
SO2	0.0187
SE1	0.0174
SE2	0.0174