

# Scotland Gas Networks Indicative Notice of Change to Transportation Charges from 1 April 2021



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## 1 Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1st April 2021, in line with our Gas Transporter Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1 April 2021 will be published by 1 February 2021, in accordance with the two months' notice requirement within the UNC.

## 2 Indicative changes to Distribution Transportation Charges on 1 April 2021

As Ofgem are not proposing to publish their final determination for RIIO-GD2 PCR until December 2020, the price change from April 2021 is shown as an indicative range.

The indicative range is based on revenues reflecting the key assumptions outlined in both the Scotland Business Plan (BP)<sup>1</sup> published in December 2019 and Ofgem's Draft Determinations (DD)<sup>2</sup>. The levels of charges have been constructed based on the latest available forecasts of the Allowed and Collected Revenues for 2020/21, which are still subject to change. This indicative range is not intended to provide an SGN view as to the revenue levels that may be contained within Ofgem's Final Determination.

The table below shows the makeup of the indicative price changes. It should be noted that the changes are driven by a combination of price control allowances, inflation and impact of reduced peak daily demand.

Table 1. Average Indicative Transportation Price Change from 1 April 2021 for both BP and DD

	SGN Business Plan RIIO-GD2	Ofgem Draft Determination RIIO-GD2
Base Revenue 2020/2021 Prices	-3.0%	-10.7%
Assumed Inflation 2021/2022	0.7%	0.7%
2021/2022 K movement (over/under collected)	0.0%	0.0%
Movement due to forecast demand levels	1.1%	1.1%
<b>Indicative Average Price Change 1 April 2021</b>	<b>-1.2%</b>	<b>-8.9%</b>

- The Base Revenue reflects the revenue outlined in Scotland's December 2019 Business Plan (which includes under/over recoveries from 2019/20) and Ofgem's Draft Determination inflated to 2021/2022 prices.
- The assumed inflation for 2021/2022 is a combination of RPI/CPI due to the transition to CPIH in GD2 and has been calculated using the August 2020 Treasury Forecast.
- K correction term carried forward reflects an under/over recovery from 2019/2020.

<sup>1</sup> <https://www.sgnfuture.co.uk/wp-content/uploads/2019/12/SGN-RIIO-GD2-Business-Plan.pdf>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator>

- We have assumed in Scotland a 1.1% reduction in SOQ from October 2020. This reduction impacts on the price change, since a capacity charging base reduction will result in an *increase* in the unit rates to maintain the same levels of income.

### 3 Uncertainties Impacting April 2021 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 2021, to be different from the indicative change.

The major uncertainties are:-

- The outcome of Ofgem's final decision on revenues for RIIO-GD2 PCR;
- The forecast level of inflation for 2021/22;
- Final forecast of bad debt in relation to the non-collection of transportation charges;
- NTS charges following Ofgem's Final Determination;
- The final close out of costs/incentives from 2019/20; and
- The level of future supply point capacity and numbers;

### 4 April 2021 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-three sites located within Scotland Gas Networks. Listed below are two sets of rates, one indicates SGN BP view and the other Ofgem's DD.

Site Name	GEMINI Reference	Distributed Gas Commodity Rate(p/kWh) Business Plan	Distributed Gas Commodity Rate(p/kWh) Draft Determination
Aberdeen Conference Centre	TECAOS	0.0788 (credit)	0.0740 (credit)
Crofthead Farm	CROFOS	0.0918 (credit)	0.0860 (credit)
Beyside Port Gordon	POG2OS	0.0788 (credit)	0.0740 (credit)
Grissan Girvan	GIR1 / GIR2	0.0209 (credit)	0.0209 (credit)
Mains of Keithnick	COUPOS	0.0893 (credit)	0.0835 (credit)
Grissan Riverside	RIVEOS	0.0790 (credit)	0.0742 (credit)
Charlesfield St Boswells	BOSWOS	0.0916 (credit)	0.0858 (credit)
Dunnswood Road Cumbernauld	DUNNOS	0.0917 (credit)	0.0859 (credit)
East Memus Farm	CARNOS	0.0918 (credit)	0.0860 (credit)

<b>Foveran / Savock Farm</b>	FAVROS	0.0916 (credit)	0.0858 (credit)
<b>Lockerbie Biomethane</b>	TBC	0.0789 (credit)	0.0741 (credit)
<b>Moray Hill Farm / Tornagrain</b>	MORYOS	0.0787 (credit)	0.0739 (credit)
<b>Peacehill Farm</b>	PEACOS	0.0788 (credit)	0.0740 (credit)
<b>Peterhead</b>	DOWNOS	0.0789 (credit)	0.0741 (credit)
<b>Port Gordon Portside</b>	POG1	0.0788 (credit)	0.0740 (credit)
<b>Tambowie Farm</b>	TAMBOS	0.0917 (credit)	0.0859 (credit)
<b>Skeddoway Farm</b>	SKEDOS	0.0916 (credit)	0.0858 (credit)
<b>Strathcathro</b>	STRCOS	0.0788 (credit)	0.0740 (credit)
<b>Tornagrain 2</b>	MOR2	0.0209 (credit)	0.0209 (credit)
<b>Oban LNG Medium Pressure</b>	OBIG	0.0596 (credit)	0.0538 (credit)
<b>Campbeltown LNG Low Pressure</b>	CAM1	0.1483 (credit)	0.1351 (credit)
<b>Thurso LNG Medium Pressure</b>	THU1	0.0671 (credit)	0.0612 (credit)
<b>Wick LNG Medium Pressure</b>	WIC1	0.0695 (credit)	0.0636 (credit)

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.

## 5 LDZ Indicative Unit Charge Rates from 1 April 2021

The average change for the SGN business plan and Ofgem draft determinations are shown below.

	<b>SGN Business Plan</b>	<b>Ofgem Draft Determination</b>
Average LDZ Indicative Unit Rates Change	-8.8%	-16.6%

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 (71.2%) and Customer Charges (28.8%). 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

<b>Charge Band (kWh/annum)</b>	<b>Capacity p/peak day kWh Business Plan</b>	<b>Capacity p/peak day kWh Draft Determination</b>
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Up to 73,200	0.2076	0.1898
73,200 to 732,000	0.1869	0.1709
>732,000	$1.2064 \times \text{SOQ}^{-0.2338}$	$1.1030 \times \text{SOQ}^{-0.2338}$
Subject to a minimum rate	0.0091	0.0084

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

Charge Band (kWh/annum)	Commodity p/kWh Business Plan	Commodity p/kWh Draft Determination
Up to 73,200	0.0303	0.0278
73,200 to 732,000	0.0270	0.0248
>732,000	$0.2209 \times \text{SOQ}^{-0.2597}$	$0.2030 \times \text{SOQ}^{-0.2597}$
Subject to a minimum rate	0.0014	0.0013

**LDZ Customer Capacity Charges**

Charge Band (kWh/annum)	Capacity p/peak day kWh/day Business Plan	Capacity p/peak day kWh/day Draft Determination
Up to 73,200	0.1176	0.1075
73,200 to 732,000	0.0038	0.0035
>732,000	$0.0792 \times \text{SOQ}^{-0.21}$	$0.0724 \times \text{SOQ}^{-0.21}$

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

Supply Point Type	p/day Business Plan	p/day Draft Determination
Non-monthly read supply points	32.4986	29.7129
Monthly read supply points	34.6040	31.6378

## 6 Methodology Changes

There are currently no amendments to transportation charging methodology that will impact on charges for the period 1 April 2021 to 31 March 2022.

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

[pricing.team@sgn.co.uk](mailto:pricing.team@sgn.co.uk)

## 7 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”).

From October 2020, the calculation of these charges was changed under UNC modification 0678A. National Grid Transmission new charging methodology will impact DN recovery of exit capacity costs from April 2021/22. These costs are a straight passthrough therefore only reflect the level of costs DN incur.

The National Grid charging methodology moved from a Long-Range Marginal Cost (LRMC) charging methodology to a Postage Stamp approach. The biggest impact of which, means instead of individual charging rates for each offtake, NTS now charge all exit points across the UK the same price irrespective of geographical location. This has caused a significant increase in charging rates in Scotland for the year 2021/22. In prior years Scotland’s location in relation to large network entry points brought about markedly low charging rates.

Although the NTS charging methodology was implemented mid-year (October 2020), the increase in Scotland will be phased over the first two charging periods of GD2. 2021/22 tariffs include costs for 2021/22. Tariff year 2022/23 will include costs for 2022/23 and the six-month under-recovery of costs related to October 2020 to March 2021 – the latter is on a two-year lag

It is anticipated that in subsequent years the charging movements related to ECN changes will stabilise

## 8 Exit Capacity Indicative Charges (ECN) 1 April 2021

The change to charging levels from 1 April 2021 is forecast to be an increase of 9,930%. As mentioned above this is due to the change in NTS charging methodology and represents the additional costs Scotland Gas will incur for the year 2021/22.

As the final RIIO-GD2 PCR revenues for National Grid NTS have not been finalised the indicative price change from April 2021 are based on National Grid Gas Transmission’s RIIO-2 business plan which was submitted to Ofgem in December 2019.

Whilst NTS charging methodology has changed to a postage stamp as explained above, Scotland 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 1st October 2020 for the period April to September 2021. The indicative October 2021 rates for the period October 2021 to March 2022, published on 30 April 2020.

Table 1 below shows the indicative charge rates set to recover the 2021/22 NTS Exit Capacity base allowance, 2019/20 K carried forward and cost allowance adjustments for Scotland.

**Table 1: April 2021 Indicative NTS Exit Capacity (ECN) Charge Rate**

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SC01	0.0200
SC02	0.0219
SC04	0.0210
LC	0.0209
LO	0.0209
LT	0.0209
LW	0.0209
LS	0.0214