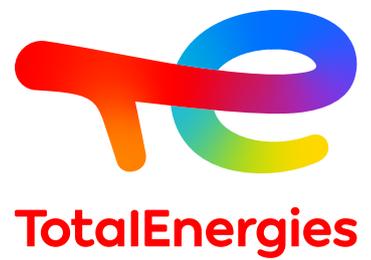


Third Party Charges Forecast



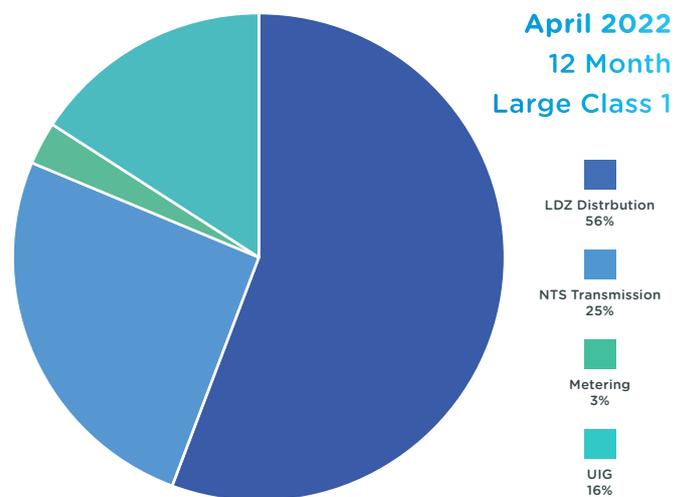
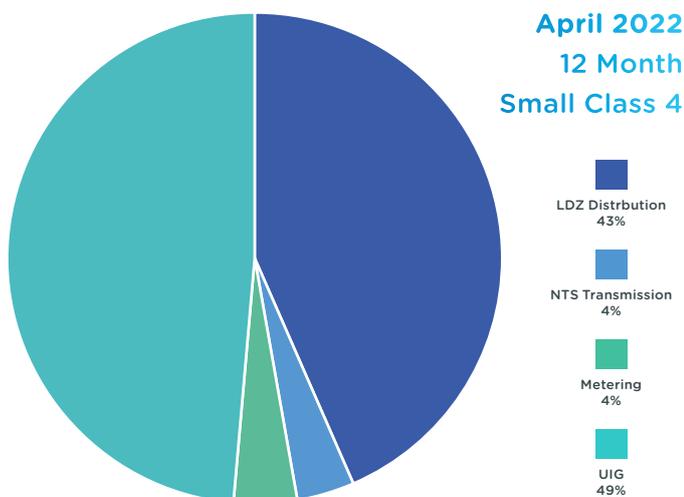
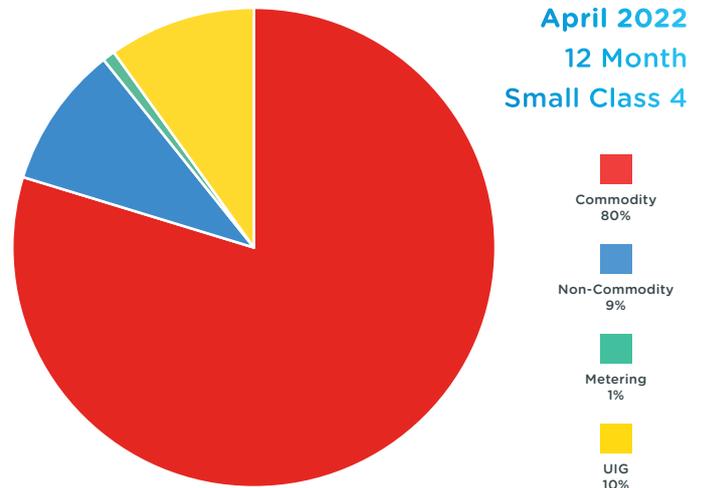
January-March 2022

Gas Non-Commodity Report

A typical consumer gas price consists of two main components.

- + Commodity: Wholesale price of Gas and Unidentified gas (UIG)
- + Non-Commodity: Transportation, Metering and Environmental charges.

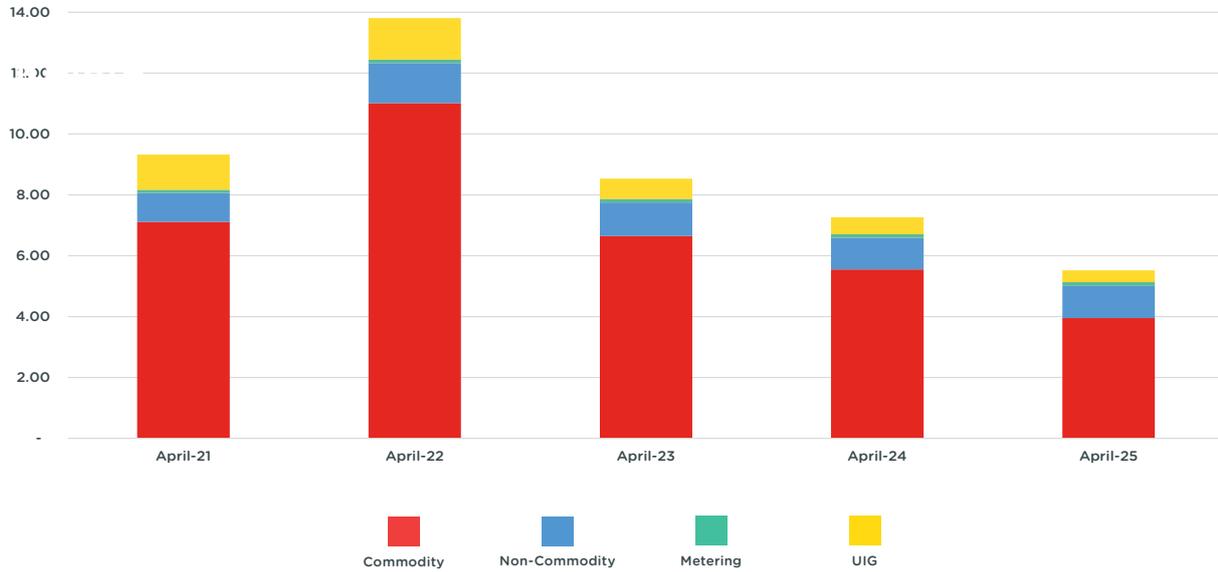
Non-Commodity can also be known as Third party, Industry or Non-Energy charges, these are the charges not directly related to the cost of wholesale energy and are set by third parties, out of the control of the supplier.



Disclaimer: The above information is supplied without any assumption of liability and you accept, by accepting the information, that we are not liable to you for your use of the information. While reasonable endeavours are taken to ensure that the information in this report is obtained from reliable sources, it is not guaranteed for accuracy. The views set forth are solely of those of the authors and not intended to provide advice or recommendations as the customer is solely responsible for its market decisions. Views expressed are subject to change without notice. Be aware that views stated are incidental to the business of TotalEnergies Gas & Power Ltd.



Small Non-Domestic



Unidentified Gas (UIG)

Although not technically non-commodity, UIG is now a significant added cost to the gas price. UIG is the balancing factor that pays for the missing gas that cannot be allocated at a given time. The UIG is made up of many things including theft, profiling errors and meter insensitivities and costs will fluctuate depending on the Wholesale gas commodity price. Please see the UIG report on pages 6 and 7 for further detail.



Non-Commodity: Transportation Charges

Transportation charges cover the cost of developing and maintaining the transmission and distribution pipeline network along with delivering a steady flow of gas from the point of origin to the end user.

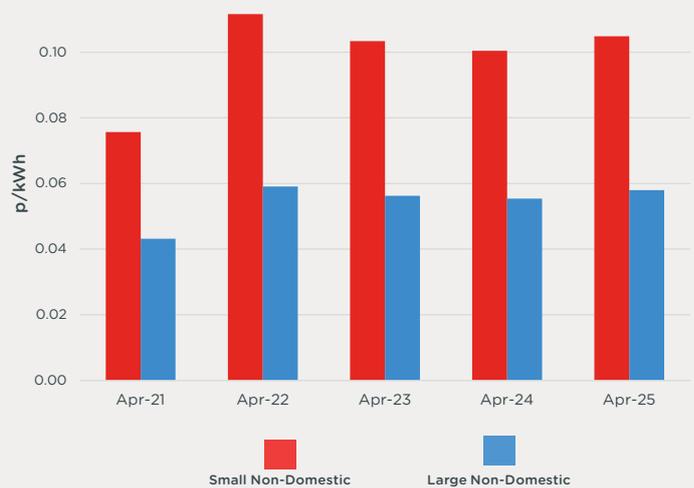
Ofgem control the amount the networks can collect during each price control period however charges can still fluctuate year-to-year due to under and over collections plus factors such as inflation.

They can be broken down into two segments:

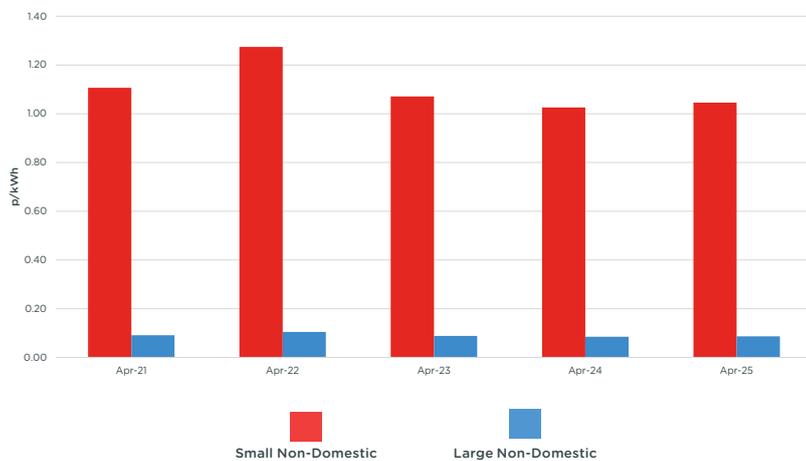
Transmission: National Transmission System (NTS)

The transmission network is the larger, high pressure network that delivers gas from the UK point of entry to each regional local distribution network. National Grid provide and own the role of transmission owner (TO) and system operator (SO).

Transmission NTS Charges



Distribution (LDZ) Average



Distribution: Local Distribution Zone charges (LDZ)

The distribution network consists of thirteen major regional areas which are owned and managed by four different Gas distribution networks. The Distribution charges recover the costs associated with delivering gas from the transmission network to the end user.

Metering

Metering charges recover the costs associated with rental, maintenance, and some installation costs to the end user’s meter. The charges can vary depending on the meter type, model, capacity, and frequency of readings.



Supplier of Last Resort (SOLR)

When a supplier exits the market the Ofgem Supplier of Last Resort (SOLR) process ensures that affected customers are automatically passed from a failed supplier to a different operating supplier so not to interrupt supply and protect credit balances.

This often incurs cost to the new supplier, and they can claim an amount back for certain elements via a Last Resort Supplier Claim which is then collected via the relevant distribution network charging.

Recent industry modifications have refined the supplier claim process to protect Non-domestic customers from the recent failed Domestic supplier claims and to date has resulted in zero addition cost to Non-domestic bills.

Example of SOLR charges from the Distribution Network Cadent (2022/23):

NETWORK	East of England	London	North West	West Midlands
Charge Code: LRI / LRD	Pence / Peak Day Kwh			
SoLR Claim Values	152.1	85.2	100.9	73.6
Domestic Load Bands	0.0846	0.0835	0.0869	0.0806
Non-Domestic Load Bands	0.0000	0.0000	0.0000	0.0000





Environmental Charges

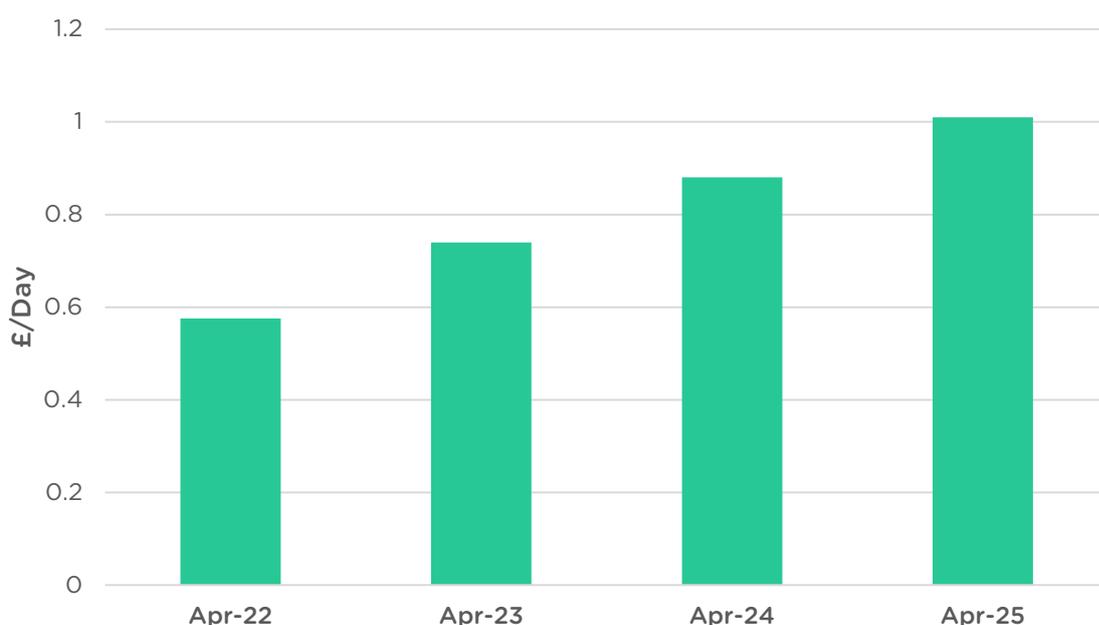
With the ambition of the UK’s target of reducing carbon emissions and reaching Net Zero by 2050 we are starting to see the introduction of new government environment policies being applied to gas charging.

Green Gas Levy - GGL

The Green Gas Levy is a government led charge to place an obligation on gas suppliers to make quarterly levy payments into the Green Gas Support Scheme (GGSS). The GGSS is a new scheme that launched in November 2021 and is designed to subsidise anaerobic digestion Biomethane plants so to provide more green, low carbon gas into the gas network. The Green Gas Support scheme will be open for new green gas producers until November 2025.

The GGL supplier charge is effective from the 30th November 2021 and is currently structured as a pence per meter rate. Ofgem have advised that the charging will move to volumetric p/kWh at a later date and is currently under review.

Green Gas Levy



Unidentified Gas (UIG)

What is UIG?

Since Nexus went live in June 2017, UIG has been the balancing factor within the gas industry, i.e., gas that cannot be allocated on any given day to an end consumer.

Total Energy into Grid-DM Demand (SPC 1 & 2)-NDM Demand (SPC 3 & 4)-Shrinkage=UIG

UIG is made up of many things, including the largest component – theft of gas, as well as errors in profiling and meter sensitivities. It is highly variable day to day but generally settles down as a greater proportion of meters are read and reconciliations are processed and is quite consistent once day to day variations are taken out.

How is UIG shared out?

The industry employs an Allocation of Unidentified Gas Expert (AUGE) to calculate factors which are used to share out UIG to all industry consumers. Proportions are based on a “polluter pays” principal. What this means is that those types of customers the AUGE identify as causing UIG have to pay more. These weighting factors all go into a matrix table below. This table is updated to take effect from October 1st every year.

AQ Band & Range (kWh)	Band	SPC 1	SPC 2	SPC 3	SPC 4
1: 0 - 73,200	Non-Prepayment & Domestic	66.75	66.75	66.75	85.2
1: 0 - 73,200	Prepayment & Domestic	104.33	104.33	104.33	243.73
1: 0 - 73,200	Non-Prepayment & Non-Domestic	11.44	617.53	600.45	663.21
1: 0 - 73,200	Prepayment & Non-Domestic	427.54	427.54	600.45	663.21
2: 73,201 - 293,000	Non-Prepayment & Domestic	196.82	197.45	196.82	239.97
2: 73,201 - 293,000	Prepayment & Domestic	81.14	81.14	196.82	239.97
2: 73,201 - 293,000	Non-Prepayment & Non- Domestic	11.44	163.05	169.71	169.71
2: 73,201 - 293,000	Prepayment & Non-Domestic	37.88	37.88	169.71	169.71
3: 293,001 - 732,000		11.44	62.86	72.23	84.95
4: 732,001 - 2,196,000		11.44	68.66	71.87	92.78
5: 2,196,001 - 5,860,000		11.44	54.73	65.43	68.63
6: 5,860,001 - 14,650,000		11.44	48.75	59.29	60.97
7: 14,650,001 - 29,300,000		11.44	45.91	51.05	56.73
8: 29,300,001 - 58,600,000		11.44	38.65	45.71	53.99
9: 58600001 & over		11.44	25.36	29.56	33.85

Table 1: UIG matrix table for Oct 2021.

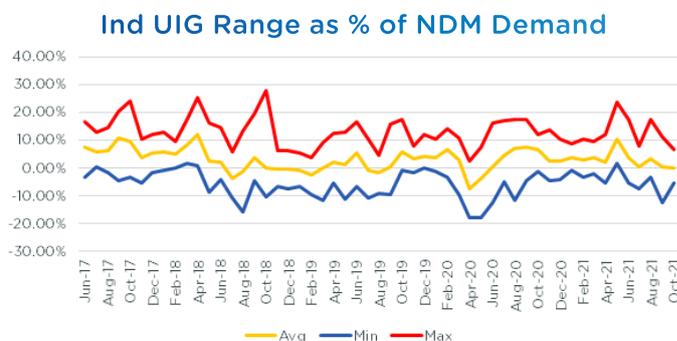


Figure 1: Monthly Industry UIG variances assessed as a % of NDM Demand

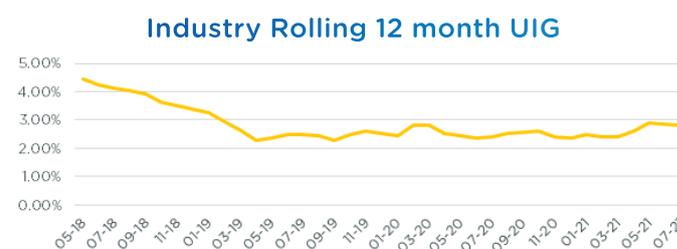


Figure 2: Industry Monthly rolling 12 month UIG rates assessed as % of NDM & DM demand

What is the cost of UIG?

UIG is an extra volume that suppliers are expected to purchase, but they don't know what that day's volume will be in advance. As you can see from figure 1 it can vary significantly day to day.

Shippers and suppliers get very short notice of what the value will be, so use the day ahead and within day market to buy the UIG gas which is needed to ensure the system is balanced. If they did not, they would have to pay the relevant SMP (system margin price) price in cashout. The first estimate they get of what it will be is the day before, but it will then change within day as well.

When looking forwards at what UIG costs would be, the forward market is the best proxy.

What happened in 2021-2022?

New Bands The industry approved a change to split out the small sites (under 293,000kwh) into extra bands, domestic vs non-domestic and whether the meter is prepayment or not. This allowed them to give domestic prepayment volume a different factor to non-domestic non-prepayment volumes.

New AUGE The factors have been set by a different company occupying the AUGE role, due to the tender and appointment process that the industry goes through regularly. This time, a new AUGE was appointed (Engage) who have brought with them new knowledge and understanding applied in a slightly different way which has resulted in different answers.

Market Future UIG costs are estimated at the forward priced at the prevailing market price. The market has increased dramatically in the second half of 2021 which means a similar UIG volume would now cost considerably more.

Industry Response

There has been significant challenge made to the UIG process this year as large step changes are not welcomed by anyone in the industry. Unfortunately, implementation is the default option unless there is unanimous support to reject the proposed table. TotalEnergies Gas & Power have been actively engaged in the annual reviews, and will be working with the industry on the outstanding options for forward improvement:

Review Group UNC781 Review of the UIG Process

This is looking to review how UIG is calculated from initial concept and to see if there is a better approach that could be implemented. This is in the initial stages currently and will continue for some time. If something promising is found, then the relevant official changes be it a MOD (UNC Modification) or other process will be raised.

UNC 782: Creation of an Independent AUGE Assurer

This would look to create a body who are holding the AUGE specifically to account. Much of the work of the AUGE is subjective therefore a sounding board to have to go through could be a useful addition. It would also give a clear escalation route for issues/challenges to the annual process which is currently lacking.

Again, this is in early stages of formulation so it is unclear if or when it may be implemented.