

Stuart Cook  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Adam Brown  
Revenue Manager

Adam.brown@uk.ngrid.com  
Direct tel +44 (0)1926 655839

[www.nationalgrid.com](http://www.nationalgrid.com)

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Dear Stuart,

## **Indicative Notice of Revised Gas NTS Charges to apply from 1 October 2010 – Commodity Charges**

This notice is issued in line with National Grid's Gas Transporters Licence in respect of the NTS ("the Licence"). The Licence requires National Grid to provide 150 days indicative notice of potential changes to its gas transportation charges that will apply from 1<sup>st</sup> October 2010. The notice of the actual charges that shall apply from 1<sup>st</sup> October 2010 will be published by 1<sup>st</sup> August 2010, in line with the two months notice required by our licence and Network Code obligations.

Please note that indicative NTS TO Exit Capacity charges effective from 1<sup>st</sup> October 2010 was published on 29<sup>th</sup> March and is available on our website at:

<http://www.nationalgrid.com/uk/Gas/Charges/indicativecharges/transmission/>

The following are our current forecasts for commodity charges to apply from 1<sup>st</sup> October 2010.

### **NTS TO Commodity Charge**

The NTS TO Commodity charge levied on entry flows is estimated to increase from its current rate of 0.0194 p/kWh to **0.0207** p/kWh, representing an increase of 7%. This increase is primarily due to:

- Lower than forecast revenue from the AMSEC auctions held in February 2010 after the current charges were set.
- Revised forecasts of the RMTNTSEC revenues following little activity in this auction.

The main uncertainty around this charge is the pricing consultation GCM19 'Removal of NTS daily entry capacity reserve price discounts' and the related UNC amendments. This consultation is ongoing and if implemented would impact entry capacity bought from 1<sup>st</sup> October 2010. Following a change in methodology, shippers may change their approach to booking entry capacity and hence could affect future revenue streams which National Grid will monitor closely.

### **NTS SO Commodity Charges**

The indicative level of the NTS SO Commodity Charge, as applied to both entry and exit flows, is **0.0206** p/kWh compared to the current level of 0.0196 p/kWh. This is an increase of 5% that has been primarily caused by:

- Increased allowed income due to an under-recovery from 2009/2010.

The under-recovery in 2009/10 was largely due to a sustained positive rise in unaccounted for gas (UAG) impacting on shrinkage costs. Shrinkage costs are forecast to remain high in 2010/11 due to high levels UAG. National Grid has a comprehensive programme to help understand and reduce the prevailing levels of UAG including reviewing all policies and procedures in place to identify improvements in determining and verifying UAG levels.

National Grid is also currently in the process of reviewing metering errors affecting a number of offtakes and sites connected to the NTS. Any adjustments to National Grid's shrinkage costs as a result of this error will feed through to the SO commodity charges. We will update the industry with the charging implications once the final outcomes are known. The effect of the meter errors has not been included in the indicative rates.

We believe that the variation in our estimate of the SO commodity charge is in the region of +/- 20%.

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to increase to an indicative level of 0.0102 p/kWh representing an 89% increase on its current level of 0.0054 p/kWh. This is because a greater proportion of the overall 'own use gas' is expected to be needed to run gas compressors at St. Fergus. This will result in an expected average rate for 2010/11 of 0.0084 p/kWh compared to 0.0076 p/kWh during 2009/10, an increase of 11%.

We estimate the range on this charge to be - 15% and +30%.

For the avoidance of doubt, all other administered charges will remain the same.

Other supporting charge setting information will also be available on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>.

Shippers should also be aware that a separate **Notice of Indicative NTS Exit Capacity Charges for 2012/13 and 2013/14** ahead of the 2010 Application window for Enduring Annual NTS Exit (Flat) Capacity has also been published on 30 April 2010 as part of the new NTS Exit Capacity processes.

If you have any questions about this Notice, or NTS charges in general, please contact myself or the Charging and Revenue Team on 01926-654633.

Adam Brown  
Revenue Manager