

Hannah Nixon  
Acting Senior Partner, Smarter Grids and Governance, Transmission  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Anne Bennett  
Charging & Revenue Manager

Anne.bennett@uk.ngrid.com  
Direct tel +44 (0)7767 298987

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

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Dear Hannah

## **Indicative NTS charges to apply from 1 April 2012**

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 at least 150 days notice of potential changes to its gas transportation charges (the 'indicative' notice). This notice applies to changes that will apply from 1 April 2012. The actual charges will be published by 1 February 2012, to provide two months notice required by the Licence and Network Code obligations.

National Grid sets charges to recover its price controlled allowances set by Ofgem. The current price control, which is defined in the Licence, expires on 31 March 2012. However, Ofgem is in the process of extending this price control by one year (the rollover year, 2012/13) to provide sufficient time for it and the other transmission licensees to develop the RIIO model of regulation that will be implemented on 1 April 2013.

The process to define the price control for the rollover year is ongoing. Accordingly there is a degree of uncertainty about the revenues National Grid will be allowed to recover during 2012/13. During the course of November we expect the price control process will have advanced to a stage where these uncertainties will be largely resolved. Against this background, when calculating the indicative prices contained in this notice, we have taken into account a range of potential outcomes and reflected these in the price ranges. However, to give shippers more certainty ahead of the notice of actual charges, National Grid will issue an updated indicative notice in early December.

## **NTS TO Commodity Charge**

The **NTS TO Commodity Charge** levied on entry flows is estimated to increase to **0.0259** p/kWh from its current rate of 0.0232 p/kWh and an average rate for 2011/12 of 0.0224 p/kWh, representing an increase of 12% and 16% respectively. The increase is primarily due to a forecast increase in the revenue we are seeking to recover from TO entry charges. A reduction in the charging base and marginally lower expected revenues from entry actions, account for around a third of the price increase, with the price control accounting for the remainder.

As noted above, the main source of uncertainty for this charge is the revenues Ofgem will allow in the rollover year – with this in mind, we estimate the final prices will be in the range 0.0216 p/kWh (-17%) to 0.0302 p/kWh (+17%) p/kWh.

### NTS SO Commodity Charges

The indicative level of the **NTS SO Commodity Charge**, as applied to both entry and exit flows, is **0.0221** p/kWh compared to the current rate of 0.0246 p/kWh and an average rate for 2011/12 of 0.0225 p/kWh, a decrease of 10% and 2% respectively.

The reduction in rate is caused by a small forecast reduction in GSO allowed revenue. We have included an adjustment (-£30m) for the expected reconciliation of the Aberdeen meter error.

As with previous years, the main uncertainties for this charge relate to the external costs of operating the system and the gas volumes subject to the charge. To reflect these uncertainties we have taken a wide range of options and believe that the variation in our estimate of this charge taking into account forecast costs and chargeable volumes, excluding any variances in meter adjustments, is in the region of around + / - 20%.

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to remain the same as the current level of **0.0172** p/kWh, which is around 7% higher than the average rate for last year. We estimate the range on this charge to be + / - 25% or + / - 0.0040 p/kWh respectively.

The **Connected System Exit Points (CSEP) Administration** charge is being reviewed with a view to update it in April 2012.

### Summary of changes to Commodity Charges

The table below summarises the changes to the commodity charges being made in April. A comparison between the average commodity rate during 2011/12 and the indicative average for 2012/13 is also provided.

Charge	Oct 2011 (Current)	Average <sup>1</sup> 2011/12	April 2012 Indicative	% change to	
				Current	Average
NTS TO Commodity	0.0232	0.0224	0.0259	12%	16%
NTS SO Commodity	0.0246	0.0225	0.0221	-10%	-2%
St. Fergus Compression	0.0172	0.0161	0.0172	-	7%

### DN (gas distribution networks) Pensions Deficit Charge

The DN Pension Deficit charges levied on the DNs on a monthly basis are expected to change during the financial year 2012/13. The table below shows the indicative levels.

<sup>1</sup> Calculated from the forecast annual revenue collectable from the charge and the relevant forecast annual chargeable volumes

DN	2012-13	
	Monthly Charge £	per Annum £m
North of England	358,333	4.3
Scotland	241,667	2.9
South of England	566,667	6.8
Wales and the West	341,667	4.1
East of England	558,333	6.7
London	325,000	3.9
North West	383,333	4.6
West Midlands	275,000	3.3

### Tools and Supporting Information

Guidance and supporting charge setting information will be made available on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>. There will be an opportunity to discuss these changes at a subsequent Gas Transmission Charging Methodology Forum (TCMF), details of which can be found at <http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>.

If you have any questions about this notice or NTS charges in general, please contact Karin Elmhirst (01926 655540) or Damian Clough (01926 656416).

Yours sincerely

Anne Bennett  
**Charging & Revenue Manager**