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Dear Ian

INDICATIVE NTS CHARGES TO APPLY FROM 1 OCTOBER 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. This notice applies to changes that will apply from 1 October 2012. The actual charges will be published by 1 August 2012, to provide two months' notice required by the Licence and Network Code obligations.

This notice is split into three parts: changes to TO and SO commodity charges; changes to other charges; and details of tools and supporting information that shippers can use to further understand how charges have been calculated.

1 TO and SO Commodity Charges

Since setting gas transportation charges for April 2012 there has been a significant reduction in forecast NTS volumes largely regarding volumes related to power generation. Specifically, as a consequence of sustained high wholesale gas prices, National Grid expects gas-fired power stations to move down the electricity generation merit order, which has been reflected in lower forecast gas volumes. The net effect is a ~10% reduction of total gas volumes. The change in forecast is supported by actual volumes and initial evidence received from Industry via the Transporting Britain's Energy process¹. This will be kept under review from now until the final charges are set at the end of July.

The impact of this revised demand forecast on both the TO and SO commodity charges is twofold:

- the revenue expected to be collected through commodity charges between April and September will be lower than anticipated, which will increase the revenue to be collected between October and March; and

¹ <http://www.nationalgrid.com/uk/Gas/OperationalInfo/TBE/>

- with a lower charging base than forecast, the updated charges will need to increase to collect the same total revenue.

1.1 NTS TO Entry Commodity Charge

The **NTS TO Commodity Charge** levied on entry flows is estimated to increase from its current rate of 0.0257 p/kWh to 0.0319 p/kWh, representing an increase of 24%. This increase is primarily due to volume effects as outlined above combined with the following other minor changes:

- lower than expected revenues from the AMSEC auction, which took place in February, have increased the revenue to be collected through the commodity charge; and
- increased allowed entry revenue from a larger than expected under-recovery in 2011/12 compared to when setting the April charges.

The main source of uncertainty for this charge is gas volumes. To provide an indication of the sensitivity of the charge to changes in volumes, with gas volumes at April forecast levels, the TO Commodity Charge would be 0.0270 p/kWh, similar to the charge outlined in April. It is estimated that the range around the indicative rate of 0.0319 p/kWh charge could vary by -15% to +20%.

1.2 NTS TO Exit Commodity Charge

As described in the notice to set current commodity charges published in January the **NTS TO Exit Commodity Charge** as applied to exit flows, will be set when sales of firm exit capacity are below baselines. To date exit capacity has not been booked to baselines and therefore to ensure the correct revenue recovery from exit shippers, the current view of the TO Exit commodity rate is 0.0087 p/kWh, although this value is dependant upon volume forecasts.

1.3 NTS SO Commodity Charge

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 level of 0.0242 p/kWh. It was expected that this charge would reduce in October following a reduction in revenues associated with interruptible exit capacity at Exit Reform. However, despite this reduction, the updated forecast of volumes has caused this rate to become higher than previously indicated.

The indicative SO Commodity Charge assumes that exceptional meter reconciliations (individual meter reconciliations that exceed £900k) totalling £36m (including the Aberdeen and Horndon SMERs) will take place during the current formula year. Of this, approximately £33m relates to the Aberdeen meter error. National Grid will continue to monitor the progress of this and other reconciliations closely before finalising the update to the SO Commodity Charge. Based on our revised forecast of gas volumes, a delay to the Aberdeen reconciliation from 2012/13 to 2013/14 would increase our estimate of the SO Commodity Charge to 0.0255 p/kWh. It is our understanding that the Aberdeen reconciliation will not be available for processing until at least Q3/Q4 2012/13 but there is a significant (50:50) possibility that the full reconciliation will not be completed until Q1 2013/14.

Other uncertainties relate to gas volumes and the allowed revenue to be recovered through the SO commodity charge. To illustrate the relationship between volumes and the commodity charge, if volumes remained at April forecast levels, the SO Commodity Charge would be 0.0182 p/kWh, a similar rate to that forecast in the April 12 charges. Ranges around this indicative figure are + / - 25%, excluding variations due to meter reconciliations.

1.4 Compression Charge

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to decrease to an indicative level of 0.0156 p/kWh representing a 7% decrease on the current level of 0.0167 p/kWh. This fall is caused by a decrease in forecasted fuel costs over the next 6 months. The range around this charge is estimated to be + / - 20%.

1.5 Summary of Changes to Commodity Charges

The table below summarises the changes to the commodity charges being made in October. A comparison between the April commodity rate, illustrative October forecast and the constant volume rate for 2012/13 is also provided.

Table 1 Charge Comparison

Commodity Charge	April 2012 (Current)	October 2012 Indicative	Average 2011/12	Average 2012/13	% Change
SO Entry	0.0242	0.0221	0.0225	0.0228	+1%
SO Exit	0.0242	0.0221	0.0225	0.0228	+1%
TO Entry	0.0257	0.0319	0.0224	0.0297	+33%
TO Exit	-	0.0087	-	0.0087	-
St Fergus Compression	0.0167	0.0156	0.0161	0.0160	+1%

2 Other Changes

2.1 TO Exit Capacity Charges

Please note that a separate notice with details of exit capacity charges has also been published today. The notice contains details of;

- i. **Final NTS Exit Capacity Charges applying from 1 October 2012.**
- ii. **Updated indicative NTS Exit Capacity Charges** for Annual NTS Exit (Flat) Capacity for 2013/14 and 2014/15.
- iii. **Initial Indicative NTS Exit Capacity Charges for 2015/16** published ahead of the 2012 Application Window in July and which will form the financial commitment for Enduring NTS Exit (Flat) Capacity requested at this time.

Please use the following link to access details of Exit Capacity Charges:

<http://www.gasgovernance.co.uk/ntscharges/2012>

2.2 Shorthaul

National Grid has proposed UNC Modification 0419² (to be discussed at the UNC Transmission workgroup in May 2012) to amend the definition of SOQ (supply offtake quantity) in the calculation of shorthaul rates. Since shorthaul rates are specific to shipper's own requirements, National Grid will contact affected shippers separately to provide details of any changes to their shorthaul charges.

3 Tools and Supporting Information

Supporting charge setting information will also be made available on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>, including a charge setting report that details the various cost and revenue components of charges; the variances in these amounts; and illustrates how they are used to determine prices.

These changes will be discussed in more detail at a subsequent Gas Transmission Charging Methodology Forum (TCMF) and the slides for this will be available on our web site prior to the meeting at <http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>.

If you have any questions about this notice or NTS charges in general, please contact Jason Hicks (01926 656392) or Karin Elmhirst (01926 655540).

Yours sincerely

Anne Bennett

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² <http://www.gasgovernance.co.uk/0419>