

# Notice of Indicative Gas Transmission Transportation Charges

Indicative charges for 1 April 2013



# Introduction

## NTS Charges to Apply From 1 April 2013

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 changes to its gas transportation charges (the 'indicative' notice). This notice is issued with respect to changes that will apply from 1 April 2013. Notice of the actual charges will be published by 1 February 2013, to provide the two months notice required by the Licence and Network Code obligations.

This notice is split into four parts:

- **TO Charges**
  - TO Entry and Exit Commodity
  - DN Pension Deficit
- **SO Charges**
  - SO Entry and Exit Commodity
  - St Fergus Compression
  - Connected System Exit Points Administration
- **Tools and Supporting Information**
- **Appendices**

## Basis of preparing indicative charges

National Grid sets its charges to recover the price controlled allowances set by Ofgem. The current price control expires on 31 March 2013 and Ofgem is in the process of determining the allowances for the RIIO-T1 price control to apply from 1 April 2013. Against this background, until National Grid receives and accepts Ofgem's Final Proposals for the price control (expected in December 2012), there is a large degree of uncertainty about the revenues National Grid will be allowed to recover during 2013/14.

## Allowed Revenues

National Grid has used Ofgem's Initial Proposals, which were published on 27 July 2012<sup>1</sup>, as the basis for calculating the indicative charges contained in this notice. It should be noted that National Grid has challenged the Initial Proposals<sup>2</sup> as they are significantly different to its business plan submission<sup>3</sup> and there could be changes in the allowed revenues between Initial and Final Proposals. In order to illustrate the sensitivity around our indicative charges Appendix 1 provides an indication of

<sup>1</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=214&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<sup>2</sup> [http://www.nationalgrid.com/NR/rdoonlyres/81CEBAA5-3595-4C63-9EF5-B63898076805/56652/20120921\\_National\\_Grid\\_RIIOT1\\_Initial\\_Proposals\\_covering\\_letter.pdf](http://www.nationalgrid.com/NR/rdoonlyres/81CEBAA5-3595-4C63-9EF5-B63898076805/56652/20120921_National_Grid_RIIOT1_Initial_Proposals_covering_letter.pdf)

<sup>3</sup> <http://www.talkingnetworkstx.com/gastransmissionplan/our-business-plan.aspx>

# Introduction

---

the charges based on National Grid's submitted RIIO-T1 business plan and other illustrations to show the impact that changes in allowed revenue have on transportation charges.

As well as uncertainty around allowed revenues, there are several policy decisions that Ofgem has yet to finalise. These are around the treatment of the recovery of the DN pension deficit and costs and revenues associated with conveying gas to independent systems. National Grid has provided specific sensitivities to illustrate the impact that different policy decisions could have on charges.

## Charging Base

For 2013/14 the charging base (gas flows) is forecast to increase compared to that assumed for 2012/13. This is based on a view that gas fired power generation remains lower in the merit order, compared to coal, for the first half of 2013/14 but returns to merit over the winter period, as gas demand increases and the operation of coal plant potentially becomes restricted under the governments Large Combustion Plant Directive (LCPD). For a set target revenue recovery, charges are lowered with a larger charging base. This assumption will be revisited before confirming final charges at the end of January 2013.

# TO Charges

## TO Allowed Revenues

Based on Ofgem's Initial Proposals, the TO allowed revenue (which is shared 50:50 between entry and exit activities) has reduced from the 2012/13 level of £694m to a level of £647m, a reduction of £47m (-7%). We have assumed that:

- Funding of independent systems has been excluded from the TO allowed revenue (£20m) as Ofgem may direct that they will be recovered via the relevant distribution network's customers. The decision relating to independent systems will be a policy decision that will be made available to National Grid in the Final Proposals.
- A reduction in revenues of £13m following the end of a one-off additional allowance in 12/13 for capex incentives.
- Other price control allowances subject to RIIO-T1 discussions.
- DN Pension costs remain included within the TO allowed revenue (£37m) but that they will be recovered from NTS transportation charges rather than directly recovered from the DNs. This is, however, subject to the results of a consultation being carried out by Ofgem, the outcome of which will not be known until National Grid receives the Final Proposals.

The net effect on collectable income from TO charges is a reduction of £10m compared to 2012/13.

## NTS TO Entry Commodity Charge

The NTS TO entry commodity charge levied on entry flows is estimated to decrease to 0.0283 p/kWh from its current rate of 0.0331 p/kWh and an average rate for 2012/13 of 0.0303 p/kWh, representing a decrease of 14% and 7% respectively. The decrease is primarily due to the reduction in the revenue that we are seeking to recover from TO entry charges.

The following table shows the impact that different decisions on the funding of the DN pensions deficit and independent system could have on the NTS TO entry commodity charge.

Scenario (change from the assumptions used to set charges above)	Impact p/kWh
DN pensions costs recovered from DNs	-0.0025
Independent system costs included in charges	+0.0014

## NTS TO Exit Commodity Charge

The TO exit commodity charge, which was introduced in October 2012, is expected to increase from its current rate of 0.0094 p/kWh to 0.0120 p/kWh, an increase of 28%.

# TO Charges

The charge has increased because:

- The revenue this charge recovers is largely dependent on the proportion of baseline exit capacity that has been booked. Following the July 2012 Application Window booking levels for 2013/14 have fallen and are 9% less than the level for 2012/13. This means that the charge needs to recover a larger revenue shortfall.
- The charge is now being set for a full year, rather than a half-year as last year (with this half year for 2012/13 being over the higher volume winter period). As a result the target revenue to collect is set to double, but the chargeable volumes have not increased in proportion to this, because summer volumes (April – Sept) are approximately 60% of the winter period.

As the TO exit commodity charge is a residual charge to enable National Grid to collect the correct TO exit income from exit shippers when capacity has not been booked up to the baseline, it is dependent on the level of exit capacity bookings and exit capacity charges. Indicative exit capacity charges for 2013/14 were published on 1 May 2012 based on National Grid's RIIO-T1 business plan submission. To calculate the indicative rate of the TO exit commodity charge, a revised set of 'indicative' TO exit capacity charges based on Ofgem's Initial Proposals have been used. For reference these can be found in Appendix 2, however, they do not replace those that were published on 1 May 2012 for the user commitment in the 2012 Exit Capacity Application Window.

The following table shows the impact that different decisions on the funding of DN pensions deficit and independent system could have on the NTS TO exit capacity rates (due to change in target exit revenue) and NTS TO exit commodity charge.

	<b>Scenario (change from the assumptions used to set charges above)</b>	<b>Impact</b>
<b>DN pensions costs recovered from DNs</b>	TO exit capacity rates (average)	-0.0017 p/kWh/d
	TO exit commodity rate	-0.0004 p/kWh
<b>Independent System costs included in charges</b>	TO exit capacity rates (average)	+0.0009 p/kWh/d
	TO exit commodity rate	+ 0.0007 p/kWh

## DN (distribution network) Pension Deficit Charge

Although we have assumed that the allowance for the DN pension deficit charges (£37m) will continue to be recovered through NTS charges, we have prepared indicative charges on the basis that these will be levied on shippers rather than the on the DNs directly. If this were confirmed in the Final Proposals, the charge levied on DNs on a monthly basis would cease. This change would require a UNC modification to remove the charge type, which is subject to consultation and would require Authority approval.

A summary of TO Commodity charges can be found in [Appendix 3](#).

# TO Charges

---

## NTS Exit Capacity charges

NTS exit capacity charges are normally updated once a year in October. National Grid issued a consultation document<sup>4</sup> to explore the relative merits of a one-off change in exit capacity charges in April 2013 as a means of addressing potential future volatility in exit capacity charges where there is step change in allowed revenues at the start of a new price control. The outcome of the consultation will not be known until mid-November and the extent of the volatility, if any, is dependent on RIIO-T1 Final Proposals published during December 2012.

It should be noted that were National Grid to decide that an April update was appropriate this would require consent from the Authority.

---

<sup>4</sup> NTS GCD10 – Potential one-off change to NTS TO Exit (Flat) Capacity Charges for April 2013 - <http://www.nationalgrid.com/NR/rdoonlyres/D46B2D03-8E93-4EDE-A967-3EBEC1B985FE/57195/GCD10FinaldiscussiondocumentApril2013oneoffchangev10.pdf>

# SO Charges

## SO Allowed Revenues

Based on Ofgem's Initial Proposals and forecast of external costs, the SO allowed revenue has reduced from the 2012/13 level of £429m to a level of £354m, a reduction of £75m (-17%).

## NTS SO Commodity Charges

The indicative level of the NTS SO commodity charge, as applied to both entry and exit flows, is **0.0191** p/kWh compared to the current rate of 0.0229 p/kWh and an average rate for 2012/13 of 0.0234 p/kWh, a decrease of 17% and 18% respectively.

The reduction in this rate is caused mainly by the reduced SO allowed revenue. Compared to 2012/13, the main changes are:

- External costs have been forecast to increase by £29m to £130m, mainly caused by increased shrinkage costs. The main uncertainties around shrinkage costs are the price of gas and throughput volumes.
- A reduction in revenues of £50m as the one-off additional allowance in 2012/13 for incentive revenues associated with the accelerated release of incremental capacity (permits) is not applicable to 2013/14.
- The reconciliation of the Aberdeen meter error is assumed to happen in Q1 2013/14 and is expected to reduce the amount recovered by the SO commodity charge by £30m.
- Following the introduction of Exit Reform on 1 October, 'charges foregone' (deemed interruptible exit capacity revenue), is no longer included in SO allowed revenue reducing revenue by £38m.
- Other price control allowances subject to RIIO-T1 discussions.

## Other Charges

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to increase from its current level of 0.0128 p/kWh to **0.0169** p/kWh due to a forecast increase in the cost of operating compressors. The increase in the rate is around 18% higher than the average rate for last year (0.0143 p/kWh) which is largely due to the increase in the cost of gas and electricity.

The **Connected System Exit Points (CSEP) Administration** charge is expected to reduce to **0.0986** p/day (or £0.36 pa) per supply point in April 2013.

A summary of the SO charges can be found in [Appendix 3](#).

# Supporting Information

---

## Supporting Information

National Grid notes the uncertainty for its customers and where possible, and in order to provide more certainty ahead of the notice of actual charges to apply, we anticipate providing an updated 'indicative' notice in December / January.

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 NTS Charging Methodology Forum (NTSCMF), details of which can be found at <http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>.

If you are unable to attend NTSCMF; would prefer to obtain information about our charges via a different route; or would like to provide feedback on how we present and explain changes to our charges, we would welcome any suggestions that would enable us to help.

## Getting in touch

If you have any questions or feedback about this document, or NTS charges in general, please contact Karin Elmhirst (01926 655540) or Adam Brown (01926 655839).

For an overview of our commitment to customers, please see:

<http://www.nationalgrid.com/uk/EnergyandServices/TransmissionCustomerCommitment/>



# Appendix 1

## Indicative Charges based on National Grid's RIIO-T1 business plan

In order to illustrate the sensitivity of our charges to the level of allowed revenue agreed as part of the price control settlement, the following tables provide the impact of the difference between Ofgem's Initial Proposals (IP) and our RIIO-T1 business plan submission in March 2012.

The underlying assumptions on DN pension costs and independent systems are the same as in the indicative notice.

Table 1: Allowed Revenues

	2012/13	2013/14	
		Initial Proposals	RIIO-T1 Business Plan
<b>TO Maximum Allowed Revenue</b>	£694m	£647m	£891m
<b>SO Maximum Allowed Revenue</b>	£429m	£354m	£383m
<b>NTS TO entry commodity</b>	£222m	£209m	£332m
<b>NTS TO exit commodity</b>	£44m	£87m	£125m
<b>NTS SO commodity</b>	£343m	£272m	£302m

Table 2: Effect on Commodity charges

Charge p/kWh	Oct 2012 (Current)	Average <sup>5</sup> 2012/13	April 2013 Initial Proposals	April 2013 RIIO-T1 Business Plan	Difference between IP and RIIO-T1
<b>NTS TO entry commodity</b>	0.0331	0.0303	0.0283	0.0448	0.0165
<b>NTS TO exit commodity</b>	0.0094	0.0094	0.0120	0.0172	0.0052
<b>NTS SO commodity</b>	0.0229	0.0234	0.0191	0.0206	0.0015

<sup>5</sup> Calculated from the forecast annual revenue collectable from the charge and the relevant forecast annual chargeable volumes

# Appendix 1

## Further illustration of impact of revenue changes

As a general guidance, the effect of a change in allowed revenues of +/- £10m on charges is shown in table 3 below<sup>6</sup>.

*Table 3: Effect of +/- £10m on total allowed revenue*

Scenario	Charge	Change
TO Allowed Revenue +/- £10m (+/-£5m on entry/exit)	TO entry commodity	+/- 0.0007p/kWh
	TO exit commodity	+/- 0.0005 p/kWh
	TO exit capacity (average)	+/- 0.0005 p/kWh/d
SO Allowed Revenue +/- £10m	SO commodity (entry & exit)	+/-0.0007 p/kWh

<sup>6</sup> The rule of thumb is based on current forecasts of volumes. Also due to the relationship between exit capacity charges and booked capacity, it is not simple to give a straightforward relationship between allowed revenue and the impact on the TO exit commodity charge. For this exercise the exit capacity charges have been updated. The exit capacity sensitivity is based on an October 2013 charge change and assumes revenue collection for the 2013/14 is started in October 2013.

# Appendix 2

## NTS Exit Capacity charges at October 2013

Revised 'Indicative' NTS Exit Capacity charges at October 2013 based on Ofgem's Initial Proposals. Please note they do not replace those that were published on 1 May 2012 for the user commitment in the 2012 Exit Capacity Application Window.

Offtake	p/kWh/d
Aberdeen	0.0001
Garton Max Refill (Aldbrough)	0.0001
Alrewas (EM)	0.0164
Alrewas (WM)	0.0164
Armadale	0.0001
Aspley	0.0196
Asselby	0.0025
Bishop Auckland	0.0020
Bishop Auckland (test facility)	0.0020
Audley (NW)	0.0213
Audley (WM)	0.0213
Austrey	0.0158
Avonmouth Max Refill	0.0161
Aylesbeare	0.0231
Bacton (Baird)	0.0001
Bacton (BBL)	0.0001
Bacton Deborah	0.0001
Bacton (IUK)	0.0001
Bacton	0.0001
Tonna (Baglan Bay)	0.0001
Baldersby	0.0040
Balgray	0.0001
Barking (Horndon)	0.0123
Barrow (Bains)	0.0086
Barrow (Black Start)	0.0086
Barrow (Gateway)	0.0086
Teesside (BASF, aka BASF Teesside)	0.0001
Bathgate	0.0001
Hatfield Moor Max Refill	0.0039
Blaby	0.0128
Sandy Lane (Blackburn CHP, aka Sappi Paper Mill)	0.0172
Blackrod	0.0183
Blyborough	0.0044
Teesside Hydrogen	0.0001
Blackness (BP Grangemouth)	0.0001
Saltend BPHP (BP Saltend HP)	0.0001
Braishfield A	0.0247
Braishfield B	0.0247
Shotwick (Bridgewater Paper)	0.0254
Blyborough (Brigg)	0.0054

# Appendix 2

Offtake	p/kWh/d
Brine Field (Teesside) Power Station	0.0001
Brisley	0.0020
Broxburn	0.0001
Burley Bank	0.0061
Burton Point (Connahs Quay)	0.0258
Caldecott	0.0103
Cambridge	0.0085
Careston	0.0001
Carrington (Partington) Power Station	0.0213
Caythorpe	0.0008
Centrax Industrial	0.0257
Lyneham (Choakford)	0.0288
Cirencester	0.0120
Cockenzie	0.0001
Coffinswell	0.0259
Coldstream	0.0001
Corbridge	0.0026
Caldecott (Corby Power Station)	0.0107
Stanford Le Hope (Coryton)	0.0120
Coryton 2 (Thames Haven) Power Station	0.0120
Blyborough (Cottam)	0.0044
Cowpen Bewley	0.0001
Crawley Down	0.0233
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)	0.0099
Deeside	0.0258
Didcot*	0.0192
Dowlais	0.0003
Drakelow Power Station	0.0159
Drointon	0.0176
Drum	0.0001
Dyffryn Clydach	0.0001
Dynevor Max Refill	0.0001
Easton Grey	0.0126
Ecclestone	0.0247
Elton	0.0011
Enron Billingham	0.0002
Epping Green (Enfield Energy, aka Brimsdown)	0.0128
Evesham	0.0089
Peterborough Eye (Tee)	0.0075
Farningham	0.0124
Farningham B	0.0124
Ferny Knoll (AM Paper)	0.0185
Fiddington	0.0076
Ganstead	0.0001
Gilwern	0.0015
Glenmavis	0.0001

# Appendix 2

Offtake	p/kWh/d
Glenmavis Max Refill	0.0001
Goole (Guardian Glass)	0.0031
Gosberton	0.0055
Gowkhall (Longannet)	0.0001
Grain Power Station	0.0099
Great Wilbraham	0.0075
Bacton (Great Yarmouth)	0.0001
Guyzance	0.0001
Hardwick	0.0155
Hatfield PS	0.0027
Hollingsgreen (Hays Chemicals)	0.0225
Hole House Max Refill	0.0224
Holford	0.0218
Holmes Chapel	0.0226
Horndon	0.0123
Hornsea Max Refill	0.0001
Humbleton	0.0001
Barton Stacey Max Refill (Humbly Grove)	0.0231
Hume	0.0001
Billingham ICI (Terra Billingham)	0.0002
Weston Point (Castner Kelner, aka ICI Runcorn)	0.0255
Ilchester	0.0187
Thornton Curtis (Humber Refinery, aka Immingham)	0.0001
Ipsden	0.0188
Ipsden 2	0.0188
Eastoft (Keadby)	0.0042
Eastoft (Keadby Blackstart)	0.0042
Keld	0.0096
Kenn	0.0243
Saddle Bow (Kings Lynn)	0.0047
Kinknockie	0.0001
Kirkstead	0.0034
Langage Power Station	0.0288
Langholm	0.0037
Lauderhill	0.0001
Leamington	0.0116
St. Neots (Little Barford)	0.0115
Little Burdon	0.0016
Littleton Drew	0.0134
Lockerbie	0.0027
Lower Quinton	0.0100
Lupton	0.0123
Luxborough Lane	0.0125
Maelor	0.0241
Malpas	0.0233
Mappowder	0.0209

# Appendix 2

Offtake	p/kWh/d
Marchwood Power Station	0.0249
Market Harborough	0.0115
Matching Green	0.0118
Medway (aka Isle of Grain Power Station, NOT Grain Power)	0.0100
Melkinthorpe	0.0088
Mickle Trafford	0.0245
Milwich	0.0183
Moffat (Irish Interconnector)	0.0015
Mosside	0.0001
Netherhowcleugh	0.0008
Pannal	0.0066
Partington	0.0213
Partington Max Refill	0.0212
Paull	0.0001
Pembroke Power Station	0.0001
Peterborough (Peterborough Power Station)	0.0079
St. Fergus (Peterhead)	0.0001
Peters Green	0.0119
Peters Green South Mimms	0.0119
Phillips Petroleum, Teeside	0.0001
Pickering	0.0037
Pitcairngreen	0.0001
Pucklechurch	0.0143
Rawcliffe	0.0027
Weston Point (Rocksavage)	0.0255
Roosecote (Roosecote Power Station)	0.0086
Ross (SW)	0.0046
Ross (WM)	0.0046
Roudham Heath	0.0037
Rough Max Refill	0.0001
Royston	0.0095
Rugby	0.0127
Ryehouse	0.0133
Saltfleetby Storage	0.0001
Rosehill (Saltend Power Station)	0.0001
Saltwick Pressure Controlled	0.0013
Saltwick Volumetric Controlled	0.0013
Samlesbury	0.0168
Seabank (DN)	0.0163
Abson (Seabank Power Station phase I)	0.0143
Seabank (Seabank Power Station phase II)	0.0162
Sellafield Power Station	0.0128
Shellstar (aka Kemira, not Kemira CHP)	0.0251
Shorne	0.0113
Harwarden (Shotton, aka Shotton Paper)	0.0257
Shustoke	0.0170

# Appendix 2

Offtake	p/kWh/d
Silk Willoughby	0.0047
Soutra	0.0006
Wragg Marsh (Spalding)	0.0059
Spalding 2 (South Holland) Power Station	0.0059
St Fergus	0.0001
Stallingborough	0.0001
Staythorpe	0.0075
St. Fergus (Shell Blackstart)	0.0001
Stranraer	0.0015
Stratford-upon-Avon	0.0102
Stublach (Cheshire)	0.0218
Sutton Bridge	0.0063
Sutton Bridge Power Station	0.0061
Tatsfield	0.0142
Terra Nitrogen (aka ICI, Terra Severnside)	0.0161
Thornton Curtis (DN)	0.0001
Thornton Curtis (Killingholme)	0.0001
Thrintoft	0.0033
Tilbury PS	0.0116
Towlaw	0.0040
Towton	0.0048
Tur Langton	0.0117
Upper Neeston (Milford Haven Refinery)	0.0001
Walesby	0.0008
Warburton	0.0210
West Winch	0.0044
West Burton Power Station	0.0045
Weston Point	0.0255
Wetheral	0.0062
Whitwell	0.0115
Winkfield (NT)	0.0210
Winkfield (SE)	0.0210
Winkfield (SO)	0.0210
Pickmere (Winnington Power, aka Brunner Mond)	0.0219
Wyre Power Station	0.0161
Yelverton	0.0014
Zeneca (ICI Avecia, aka 'Zenica')	0.0002

# Appendix 3

## Summary of Commodity Charges

The table below summarises the indicative changes to the commodity charges being made in April 2013. A comparison between the average commodity rate during 2012/13 and the indicative average for 2013/14 is also provided.

NTS Charge	Oct 2012 (Current)	Average <sup>7</sup> 2012/13	April 2013 Indicative	% change to	
				Current	Average
TO Entry Commodity	0.0331	0.0303	0.0283	-14%	-7%
TO Exit Commodity	0.0094	0.0094	0.0120	28%	28%
SO Commodity (entry & exit)	0.0229	0.0234	0.0191	-19%	-21%
Total Commodity (entry & exit)	0.0883	0.0865	0.0785	-11%	-9%
St. Fergus Compression	0.0128	0.0143	0.0169	32%	18%

<sup>7</sup> Calculated from the forecast annual revenue collectable from the charge and the relevant forecast annual chargeable volumes