

## Explanation of the NTS SO and TO Commodity Charges for the formula year 2011/12

### Introduction

This document seeks to provide greater transparency to the processes and data used by National Grid Gas NTS (“National Grid”) to set the NTS System Operation (SO) and Transportation Owner (TO) Commodity Charges.

Charges are set before actual costs and allowed revenues have been finalised. In the case of the SO Commodity Charges actual allowed revenue (SO MAR) is not known until outturn costs for the formula year have been determined, therefore the SO and TO allowed revenues and their individual components have to be forecasted so as to allow charges to be set.

Forecasts are based on a number of different factors and assumptions including but not limited to, historical costs, historical auction revenues, the forward cost of gas, flows on the system, incentive schemes and regime changes. These can be subject to significant variances and volatility throughout the year, which are amplified by the fact that Indicative and Final notices and their related costs are forecast 150<sup>1</sup> days and 2 months before actual charges are implemented and costs incurred.

National Grid has an obligation to use its best endeavours in setting its charges to ensure that in respect of any formula year the revenue, which it collects (SOR<sub>t</sub> & TOR<sub>t</sub>) shall not exceed the maximum NTS allowed revenue (SOMR<sub>t</sub> & TOMR<sub>t</sub>).

Therefore, as costs fluctuate throughout the year, the charging obligations on National Grid ensure that charges must fluctuate as well.

By providing greater transparency of the individual cost components and how these contribute to charges, NTS users could potentially forecast any future fluctuations and price changes.

If you would like further information on how the costs and allowed revenues are derived, please refer to System Operator incentive consultations, TO Price Control documents and charging notices for further detail regarding these matters.

### Other related information sources

This document is one of a suite of documents that describe the NTS charges levied by National Grid and the methodologies behind them. The other documents that are available are:

- Uniform Network Code Section Y: The Gas Transmission Transportation Charging Methodology
- Statement of Gas Transmission Transportation Charges
- Incremental Entry Capacity Release Methodology Statement
- Metering Charging Statement
- Connection Charging Statement

These are available at the following websites:

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

<http://www.gasgovernance.co.uk/TPD>

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<sup>1</sup> In exceptional circumstances notices may be made in a time period less than 150 days such as a third price change

**Structure of this document**

This document is divided into three sections:

- Part A relates to the SO Commodity Charge;
- Part B relates to the TO Commodity Charge; and
- Part C relates to TO Exit Capacity Charges; and
- Part D provides details of the annual charge setting timetable and sources of further information.

**PART A: SO COMMODITY CHARGE**

The SO Commodity Charge recovers the difference between the SO allowed revenue and revenues received from other SO charges.

To derive the SO Commodity Charge a number of high-level steps are required:

- Step 1:** Determine the SO allowed revenue
- Step 2:** Determine the actual revenue to be recovered from the SO Commodity Charge
- Step 3:** Determine the volumes that attract the SO Commodity Charge
- Step 4:** Calculate the SO Commodity Charge rate

**Step 1: Determining the SO allowed revenue**

The maximum NTS SO allowed revenue in respect of formula year t ( $SOMR_t$ ) is defined in National Grid’s Gas Transporter Licence for the NTS (“the Licence”). It is calculated using the following formula:

$$SOMR_t = SOEIRC_t + SOExIRC_t + SOOIRC_t + SOIntIRC_t + SORA_t + BBIOCA_t + DELINC_t - SOK_t$$

Table 1 details the individual terms contained in the equation above, which have been used to determine the final prices that applied during the relevant year. Note that all the figures quoted within this note relate to the entire formula year, 2011/12.

**Table 1**

Terms used for Final notification of charges	April Value (£m)	Oct Ind Value (£m)
SO entry incentives, costs and revenues (SOEIRC <sub>t</sub> )	91.2	91.2
SO exit incentives, costs and revenues (SOExIRC <sub>t</sub> )	127.6	121.8
SO external incentives, costs and revenues (SOOIRC <sub>t</sub> )	158.1	138.4
SO internal incentives, costs and revenues (SOIntIRC <sub>t</sub> )	63.1	63.1
SO income adjusting event adjustment (SORA <sub>t</sub> )	0	0
SO buyback overall incentive collar adjustment (BBIOCA <sub>t</sub> )	0	0
SO accelerated incremental capacity delivery incentive (DELINC <sub>t</sub> )	0	0
Revenue adjustment term for prior year (SOK <sub>t</sub> ) <sup>*</sup>	5.9	(27.4)
<b>Maximum NTS SO allowed revenue (SOMR<sub>t</sub>)</b>	<b>434.1</b>	<b>441.9</b>

<sup>2</sup>\*SOK<sub>t</sub> is deducted in the SOMR<sub>t</sub> formula. Therefore any under recovery is shown as ().

For further details of the SO allowed revenue, refer to Special Condition C8C “NTS System Operation activity revenue restriction” Paragraph 3a of the Licence.

**Typical variations in SOMR<sub>t</sub>**

The values in Table 1 are subject to uncertainty, particularly those that are linked to externalities such as gas costs. It is anticipated that separate reporting of the SO

<sup>2</sup> Meter revenue adjustments are included within the SO external incentives, costs and revenues (SOOIRC<sub>t</sub>) term.

external incentive performance will allow shippers to better predict future price movements. However, shippers may wish to note:

- ❑ typically SOIntRC<sub>t</sub> shows relatively little fluctuation throughout the year, as this term relates to the internal costs applicable to the SO activity;
- ❑ the SOEIRC<sub>t</sub> and SOExIRC<sub>t</sub> terms are largely collected through capacity and neutrality charges and hence do not contribute significantly to the variability of the SO Commodity charge;
- ❑ the SOOIRC<sub>t</sub> term has been subject to large fluctuations. This is because the term includes System Balancing Costs which are heavily linked to gas costs, flows on the NTS and any meter error reconciliation adjustments; and
- ❑ the SOK<sub>t</sub> term will not be subject to a significant variation when indicative October prices are published in May each year as it relates to any under/over recovery from the previous formula year, which will be largely finalised by that point in time.

**Step 2: Determining the target revenue for the SO Commodity Charge**

The maximum NTS SO allowed revenue is collected through a number of charges in addition to the standard SO Commodity Charge. The revenue from these other charges must first be forecasted so that the residual target revenue to be collected through the SO Commodity Charge can be calculated. The SO Commodity charge is set such that the target actual SO Revenue equals the maximum NTS allowed revenue. The actual NTS SO revenue (SOR<sub>t</sub>) is calculated using the following formula:

$$SOR_t = SOROC_t + SORCAP_t + SOExRF_t + RCOM_t$$

***Associated SO charges***

Forecasted revenue resulting from associated SO charges levied by National Grid is deducted from the maximum NTS SO allowed revenue total.

**Table 2**

Terms used for Final notification of charges	April Value (£m)	Oct Ind Value (£m)
Balancing Neutrality Charge (RNC <sub>t</sub> )	10.0	10.0
Capacity Neutrality Components (revenues)	A	A
<b>Adjustment for Neutrality (SOROC<sub>t</sub>)</b>	<b>10.0+A</b>	<b>10.0+A</b>

Please refer to our Charging Methodology Statement for further information regarding any terms mentioned within this section of the document.

***Adjustments for the sale of incremental capacity***

Revenue from the sale of incremental entry (SOEIRC<sub>t</sub>) and exit (SOExRF<sub>t</sub>) capacity is deducted as this is recovered through the relevant capacity charges. For entry the amount equates to revenue resulting from any incremental capacity allocated through the Entry Capacity auctions held ahead of the gas day and this capacity may either be obligated or non-obligated. The revenue is effectively used to net off the incremental

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SO allowed costs included in  $SOMR_t$ . For exit the adjustment is equal to the forecasted revenue collected in the formula year in relation to Exit Charges for firm exit capacity above the baseline.

**Table 3**

Terms used for Final notification of charges	April Value (£m)	Oct Ind Value (£m)
Entry Capacity Investment Revenue ( $SORCAP_t$ )	52.2	58.1
Exit Capacity Investment Revenue ( $SOExRF_t$ )	9.3	9.2
<b>Adjustment for the sale of incremental capacity</b>	<b>61.4</b>	<b>67.3</b>

**Adjustments for other Charges**

A proportion of the SO costs are recovered through the St Fergus Compression Charge, Shorthaul Commodity Charge and Capacity Neutrality Buyback revenue. The St Fergus Compression Charge recovers the compression costs associated with the St. Fergus TOM sub-terminal directly from those shippers at that terminal due to local pressure tier arrangements. The optional Shorthaul Commodity Charge is offered as a replacement to the TO and SO Commodity Charges. In all cases, the forecast revenue recovered from these charges is deducted from  $SOMR_t$ .

**Table 4**

Terms used for Final notification of charges	April Value (£m)	Oct Ind Value (£m)
St Fergus Compression Revenue	11.5	127
Shorthaul Revenue	11.2	5.7
Capacity Neutrality Buyback Costs recovered through Capacity Neutrality	5.0	5.0
Capacity Neutrality Components (revenues credited via capacity neutrality)*	-A*	-A*
<b>Adjustment for other Commodity Charges</b>	<b>27.8-A</b>	<b>23.3-A</b>

\*This cancels out the figure in Table 2 and therefore has no impact on the SO Commodity charge

The target revenue to be recovered through the SO Commodity Charge is as follows:

**Table 5**

Terms used for Final notification of charges	April Value (£m)	Oct Ind Value (£m)
Maximum Allowed NTS SO revenue ( $SOMR_t$ )	434.1	441.9
.. less associated SO charges	10.0	10.0
.. less sales of incremental capacity	61.4	67.3
.. less other charges	27.8	23.3
<b>Remainder of RCOM i.e. revenue to be collected through SO Commodity Charge</b>	<b>334.9</b>	<b>341.3</b>

The figure changes as National Grid's view of the above costs and revenue change. Table 6 details how the target revenue to be collected through the SO Commodity Charge has varied during the formula year.

**Table 6**

Target SO Commodity Charge Revenue in relevant year (£m)			
Prices to apply from April		Prices to apply from October	
Indicative	Final	Indicative	Final
327.3	334.9	341.3	-

### Step 3: Determining the volumes that attract the SO Commodity Charge

The volumes that attract the SO Commodity Charge are those forecast entry and exit flows excluding storage flows, net of shorthaul volumes i.e. the volumes that shippers have nominated to attract the Shorthaul Commodity Charge. Shippers can nominate to go to Shorthaul at any time throughout the year.

Table 7 shows the volumes used for the prices set for the formula year.

**Table 7**

Volumes used for setting SO Commodity Charge in relevant year (GWh)			
Prices to apply from April <i>(April to March Volumes)</i>		Prices to apply from October <i>(October to March Volumes)</i>	
Indicative	Final	Indicative	Final
1,882,420	1,867,626	1,176,099	-

The flow data is updated as part of the demand forecasts published in mid-May. Therefore, shippers may observe different flow assumptions for the final notice of the October price change.

### Step 4: Calculation of the SO Commodity Charge rate

The SO Commodity Charge is collected from non-storage entry and exit flows excluding shorthaul flows, therefore to calculate the charge rate to apply from April the following formula is used:

$$\frac{\text{Forecast revenue from SO Commodity Charge (£m)}}{\text{Forecast Flows (GWh)}} \times 100 = 0.0179 \text{ p/kWh}$$

### ***Mid-year updates to the SO Commodity Charge***

The commercial framework allows the SO Commodity Charge to be revised in October. Further updates are permitted in exceptional circumstances.

When making a mid-year price update, the actual revenue collected during the year to date is deducted from the revised forecast annual revenue, and the remaining flows for the year considered.

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For example, to update prices in October the following formula is applied:

$$\frac{\text{Forecast revenue from SO Commodity Charge - Revenue Apr to Sep (£m)}}{\text{Forecast Flows between Oct and Mar (GWh)}} \times 100$$

### Forecast revenue recovery through SO Commodity Charge

Table 8 shows the forecast monthly flows that will attract the SO Commodity Charge and the expected revenue from this charge. Data shown in red is based on actuals, other data is forecast.

**Table 8**

Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
146,967 GWh	115,966 GWh	93,489 GWh	89,201 GWh	89,304 GWh	99,127 GWh
0.0179 p/kWh	0.0179 p/kWh	0.0179 p/kWh	0.0179 p/kWh	0.0179 p/kWh	0.0179 p/kWh
£26,307,024	£20,757,881	£16,734,532	£15,967,009	£15,985,495	£17,743,725

Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
124,846 GWh	164,496 GWh	190,555 GWh	202,508 GWh	186,143 GWh	172,736 GWh
0.0219 p/kWh	0.0219 p/kWh	0.0219 p/kWh	0.0219 p/kWh	0.0219 p/kWh	0.0219 p/kWh
£27,341,351	£36,024,694	£41,731,490	£44,349,192	£40,765,239	£37,829,234

Charges are always set to recover the exact amount of allowed revenue for the formula year, however, as costs and volumes are not fixed and are subject to variability, any forecast/actual difference between allowed revenue and actual revenue feeds through into the following formula year (with the appropriate interest adjustments made). This is through the NTS SO revenue adjustment term  $SOK_t$  which applies in that formula year.

**PART B: TO COMMODITY CHARGE**

To derive the TO Commodity Charge a number of high-level steps are required:

- Step 1:** Determine the TO Allowed Revenue
- Step 2:** Determine the target revenue to be collected via the TO Commodity Charge
- Step 3:** Determine the volumes that attract the TO Commodity Charge

**Step 1 Determining the TO allowed revenue**

The maximum NTS TO allowed revenue in respect of formula year t ( $TOMR_t$ ) is defined in the Licence. It is calculated using the following formula:

$$TOMR_t = TOZ_t - TOZA_t + TOF_t + TOG_t - TOK_t$$

Table 9 below details the terms used to determine the final prices to apply during the formula year.

**Table 9**

Terms used for Final notification of April 2010 charges	Apr Value (£m)	Oct Ind Value (£m)
TO core allowance ( $TOZ_t$ )	569.9	569.9
TO revenue adjustment for Milford-Haven ( $TOZA_t$ )	11.8	11.8
TO pass-through costs ( $TOF_t$ )	60.3	57.0
TO incentive costs and revenue ( $TOG_t$ )	23	23
Revenue adjustment term for prior year ( $TOK_t$ )	1.3	4.5
Entry K	0.0	0.0
Exit K	1.3	4.5
<b>Maximum NTS TO revenue (<math>TOMR_t</math>)</b>	<b>619.3</b>	<b>612.9</b>

For further details of the TO allowed revenue, refer to Special Condition C8B “NTS transportation owner activity revenue restriction”, Paragraph 3a of the Licence.

**Typical variations in  $TOMR_t$**

Assuming no change to the Transportation Licence, shippers may wish to note:

- $TOZ_t$  is typically fixed from the January (final) notification of the April charges, once the inflation data is based on actuals rather than on any forecast;
- $TOF_t$  should be relatively stable during the price control period, as the majority of this term relates to pension costs allowances that are fixed for the period. This term can typically move by  $\pm 10\%$ ;
- $TOG_t$  is mainly driven by changes in the core allowance and may vary by  $\pm \text{£}1\text{m}$  throughout the year; and
- $TOK_t$  will be relatively fixed when indicative October prices are



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published in May each year. Please note that TOK is now split into Entry and Exit,

The RPI rate for the 2011/12 formula year equals 4.69%.

### **Step 2: Determining the target revenue for the TO Commodity Charge**

The TO Commodity Charge collects the difference between auction revenue applicable to the formula year and TO entry allowed revenue.

#### ***TO entry allowed revenue***

The TO entry allowed revenue is equal to the TO maximum allowed revenue (net of K (TOK<sub>t</sub>)). The revenue collected from the Pension Deficit Charge (levied on Distribution Networks) and Metering charges is then deducted. This is then divided by 2. Finally the TO Entry Allowed Revenue is then adjusted by the Entry K amount. Please compare Table 9 and Table 11 to see how this works in detail.

#### ***Auction revenue***

The obligated entry capacity revenue collected in the relevant year must be determined by considering all applicable capacity auctions (ahead of the day). A combination of forecast and actual data is used depending on the auction type and when it is held.

For instance, revenue from the Quarterly System Entry Capacity (QSEC) auctions is based on actual data. The QSEC auction sells entry capacity for capacity year+1 to capacity year+16 inclusive. The QSEC to be held in March 2011 sells capacity from 1 October 12 to 30 September 28. Therefore all QSEC auctions held previous to QSEC 2011 will have sold entry capacity for the 2011/12 formula year, hence why it is actual data. The Annual Monthly System Entry Capacity (AMSEC) auction sells capacity for capacity year+1 to capacity year+2. AMSEC 2010 and AMSEC 2011 will have therefore sold capacity for the 2011/12 formula year. To set the TO Commodity Charge to apply from April, revenue from one AMSEC auction will be based on actual auction results and the other based on forecast data (as charges set in April will be set before the actual AMSEC auction is held). Actuals for both the AMSEC auctions are available for the October price changes.

Where forecast auction revenues are required, this will typically be based on the actual revenues generated from the same auction held the previous year unless National Grid receives better information from shippers. Shippers should note this is not always reliable particularly at times of regime change when shippers may adopt different bidding strategies.

For the Rolling Monthly Trades & Transfer System Entry Capacity (RMTNTSEC) and Day Ahead Daily System Entry Capacity (DADSEC) auction revenues, the final total is forecasted for April price changes (historically negligible change is seen between forecast and actual), as at the point when charges are finalised further auction revenue will be collected.

Table 10 shows the auction revenue assumptions used to set the final TO Commodity Charge during the relevant year (equivalent numbers for the prior year are shown in grey for comparison). Actual auction revenues are shown in blue and forecasts in red.

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**Table 10**

Auction	Formula Year	
	April view of relevant year £m	Oct Ind view of relevant year £m
QSEC Auctions	99.9	99.9
AMSEC 2009	1.3	1.3
AMSEC 2010	8.2	3.7
RMSEC & TT 2010	1.0	1.0
DADSEC	0.2	0.0
DRSEC		
<b>Total auction revenue</b>	<b>110.5</b>	<b>106.0</b>

The target TO Commodity Charge revenue is calculated as shown by Tables 11-13

**Table 11**

Term	Apr Value (£m)	Oct Ind Value (£m)
Maximum NTS TO revenue (TOMR <sub>t</sub> )	619.3	612.9
.. less DN Pension Charge revenue	26.5	26.5
.. less metering charges	1.5	1.5
<b>Revenue to be collected from TO Commodity and Capacity Charges</b>	<b>591.3</b>	<b>584.9</b>
.. eliminate (TOK <sub>t</sub> ) stated in Table 9	1.3	4.5
<b>Revenue to be recovered through TO Entry and Exit Charges excluding Individual Entry and Exit K's</b>	<b>592.6</b>	<b>589.4</b>

The purpose of this table is to remove TOK<sub>t</sub> which forms part of the overall TOMR<sub>t</sub>. This allows the individual Entry and Exit K's to be applied, and subsequently the amount of revenue to be collected from Entry and Exit charges for the year to be calculated accurately as shown in Table 12 on the next page.

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**Table 12**

Terms	Apr Value (£m)	Oct Ind Value (£m)
Revenue to be recovered through TO Entry and Exit Charges excluding Individual Entry and Exit K's	592.6	589.4
Divide by 2 to maintain 50/50 split	296.3	294.7
Apply Entry TOK <sub>i</sub> = TO Entry allowed revenue (from Table 9)	296.3	294.7
Apply Exit TOK <sub>e</sub> = TO Exit allowed revenue (from Table 9)	295.0	290.2
<b>Revenue to be collected from TO Commodity and Capacity</b>	<b>591.3</b>	<b>584.9</b>

Now that the Individual Entry K has been applied, revenue collected from TO Capacity Auctions is deducted to leave the remaining TO Entry Allowed revenue, which is collected through the TO Commodity Charge as shown in Table 13

**Table 13**

Terms used for Final notification of TO Entry Commodity charges	Apr Value (£m)	Oct Ind Value (£m)
TO Entry allowed revenue	296.3	294.7
less Forecast TO Auction revenue	110.5	106.0
<b>TO Commodity Revenue</b>	<b>185.8</b>	<b>188.7</b>

Table 14 details how the target revenue to be collected through the TO Commodity Charge varies during 2011/12.

**Table 14**

Target TO Commodity Charge Revenue in relevant year (£m)			
Prices to apply from April		Prices to apply from October	
Indicative	Final	Indicative	Final
185.8	185.8	188.7	

**Determining the volumes that attract the TO Commodity Charge**

The volumes that attract the TO Commodity Charge are those forecast non-storage entry flows net of shorthaul volumes i.e. the volumes that shippers have nominated to attract the Shorthaul Commodity Charge.

Table 15 shows the volumes used for the prices set for 2011/12.

**Table 15**

Annual Volumes used for setting TO Commodity Charge in relevant year (GWh)			
Prices to apply from April <i>(April to March Volumes)</i>		Prices to apply from October <i>(October to March Volumes)</i>	
Indicative	Final	Indicative	Final
946,307	938,911	523,560	

The flow data is updated as part of the demand forecasts published in mid-May. Shippers will therefore observe different flow assumptions for indicative and final notices of the October price change to those made for the April prices.

**Calculating the TO Commodity Charge rate**

The TO Commodity Charge is collected from non-storage entry flows excluding shorthaul flows, therefore to calculate the charge rate to apply from April the following formula was used.

$$\frac{\text{Forecast revenue from TO Commodity Charge (£m)}}{\text{Forecast entry flows (GWh)}} \times 100$$

$$\frac{£185.8\text{m}}{946,307\text{GWh}} \times 100 = 0.0198 \text{ p/kWh}$$

**Mid-year updates to the TO Commodity Charge**

The commercial framework allows the TO Commodity Charge to be revised in October. Further updates are permitted in exceptional circumstances.

When making a mid-year price update, the actual revenue collected during the year to date is deducted from the revised annual revenue, and the remaining flows for the year considered.

For example, to update prices in October the following formula is applied:

$$\frac{\left( \begin{array}{l} \text{Forecast revenue from TO Commodity Charge} \\ - \text{Collected revenue between Apr and Sep} \end{array} \right)}{\text{Forecast flows between Oct and Mar (GWh)}} \times 100$$

**Forecast revenue recovery through TO Commodity Charge**

Table 16 shows the forecast monthly flows that will attract the TO Commodity Charge and the expected revenue from this charge. Data shown in red is based on actuals, other data is forecast.

If actual revenue recovered is greater than the TO entry allowance revenue then the over recovery will be dealt with first by the application of the buy-back offset mechanism, with any residual revenue credited back to entry shippers through the TO Commodity Charge rebate mechanism.

**Table 16**

<b>Apr-11</b>	<b>May-11</b>	<b>Jun-11</b>	<b>Jul-11</b>	<b>Aug-11</b>	<b>Sep-11</b>
73,909 GWh	58,367 GWh	47,087 GWh	44,940 GWh	44,992 GWh	49,912 GWh
0.0198 p/kWh	0.0198 p/kWh	0.0198 p/kWh	0.0198 p/kWh	0.0198 p/kWh	0.0198 p/kWh
£14,633,946	£11,556,608	£9,323,265	£8,898,066	£8,908,411	£9,882,603

<b>Oct-11</b>	<b>Nov-11</b>	<b>Dec-11</b>	<b>Jan-12</b>	<b>Feb-12</b>	<b>Mar-12</b>
62,837 GWh	82,717 GWh	95,793 GWh	101,789 GWh	93,567 GWh	86,858 GWh
0.0240 p/kWh	0.0240 p/kWh	0.0240 p/kWh	0.0240 p/kWh	0.0240 p/kWh	0.0240 p/kWh
£15,080,849	£19,851,999	£22,990,207	£24,429,350	£22,456,078	£20,845,904

Any TO Entry over recovery not dealt with via the above mechanisms will flow through into the following formula year (with the appropriate interest adjustments made) through the NTS TO revenue adjustment term  $TOK_t$  which applies in that formula year.

**PART C: CALCULATING TO TARGET EXIT REVENUE**

To derive the TO Target Exit Revenue a number of high-level steps are required:

**Step 1:** Determine the TO Allowed Revenue

**Step 2:** Determine the target exit revenue to be collected in formula year

**Step 3:** Determine the target exit revenue to be entered into the Transportation Model

**Step 1 Determining the TO allowed revenue**

This step is exactly the same as Step 1 used to calculate the TO Commodity Charge as shown on page 8 of this document.

**Step 2: Determining the initial target Exit Revenue**

***TO exit allowed revenue***

To see how TO Exit Allowed Revenue is calculated please refer to tables 11 and 12.

Interruptible supply points do not currently attract NTS Exit Capacity charges.

The revenue which would be recovered if these Interruptible supply points were firm is forecasted and called 'Charges Foregone'

Charges foregone are (up to 2012/13 Gas Year) included within the NTS Licence as SO allowed revenue and as TO actual (collected) revenue.

The licence allows this revenue to be recovered through the term  $SOExIRC_t$

Charges foregone are therefore recovered through the SO Commodity Charge, but the actual revenue recovered is treated as TO Actual revenue. Charges Foregone therefore needs to be deducted from the TO exit allowed revenue. Forecasts of charges foregone are shown in Table 17

**Table 17**

Charges Foregone (ExNTSSIC <sub>t</sub> ) year (£m)			
Prices to apply from April		Prices to apply from October	
Indicative	Final	Indicative	Final
88.4	85.6	79.8	

The initial target Exit Revenue is shown in Table 18

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**Table 18**

Terms used for Final notification of TO Exit Capacity charges	Apr Value (£m)	Oct Ind Value (£m)
TO Exit Allowed revenue (from Table 12)	295.0	290.2
less Charges Foregone	85.6	79.8
<b>Initial Target Exit Revenue</b>	<b>209.3</b>	<b>210.4</b>

This gives the TO Exit Revenue to recover within the formula year from TO Exit Capacity Charges

**Step 3: Determining the Transportation Model target Exit Revenue**

The revenue figure which is entered into the Transportation model differs from the target Exit Revenue to be collected for the formula year. This is because Exit charges are set and fixed for the capacity year October<sub>t</sub> to September<sub>t+1</sub> whereas the formula year runs from April<sub>t</sub> to March<sub>t+1</sub>.

When setting Exit Capacity charges for October<sub>t</sub> the revenue recovered over the period April<sub>t</sub> to October<sub>t</sub> (set by the previous years Exit Capacity charges) needs to be taken into account.

Therefore the target exit revenue to input into the model is derived from the following formula.

Transportation model target Exit Revenue =

(Initial target Exit Revenue – Forecast Exit Revenue Apr to Oct) x 2

The formula is multiplied by two as Exit Charges are fixed for an entire Gas year. To recover £100m for the final 6 months, £200m needs to be entered into the Transportation model as the Transportation Model calculates a daily exit charge per day for a full year October<sub>t</sub> to September<sub>t+1</sub>.

The Transportation Model sets both Baseline and Incremental Exit Capacity charges. Revenue from Baseline Capacity is classed as TO, whereas revenue from Incremental is classed as SO.

**Table 19**

Terms used for Final notification of TO Exit Capacity charges	@April Finals	@Oct Ind
	October 2011 Ind Value (£m)	October 2011 Ind Value (£m)
Initial Target Exit Revenue	209.3	210.4
less Forecast TO Exit Revenue Apr to Oct *	97.6	97.6
Remaining revenue to recover within formula year	111.8	112.8
<b>Final Target Exit Revenue to be inputted into the Transportation Model</b>	<b>223.5</b>	<b>225.7</b>

## **PART D: CHARGING TIMETABLE & FURTHER INFORMATION**

### **Charging timetable**

Charge changes are published by the following dates throughout the year:

<b>Date (by)</b>	<b>Notification of...</b>
1 November	Indicative charges to apply from following 1 April
31 January	Final charges to apply from following 1 April
1 May	Indicative charges to apply from following 1 October
31 July	Final charges to apply from following 1 October

Notices of the updates will be posted on National Grid's industry website and on the Joint Office's website. The updates will also be notified via the Joint Office's email notification service.

### **Further information**

If you require further details about any of the information contained within this document or have any comments on how this document might be improved please contact our UK Transmission Charging and Revenue team, on 01926 654633.