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1 December 2010

Dear Stuart,

## **Notice of Revised Gas Transmission Transportation Charges from 1 February 2011**

Following on from our letter dated 3 November 'Indicative notice of February 2011 and April 2011' (the Indicative Notice) National Grid is publishing notice of revised transmission charges two months in advance of the changes, consistent with our Licence and Uniform Network Code obligations. The updated charges will apply to relevant gas flow allocations from 1<sup>st</sup> February 2011.

As noted to the Industry in the Indicative Notice, National Grid will be undertaking a third price change within the 2010/11 formulae year. The reasons for the third price change, as set out previously in the Indicative Notice, are outlined below.

The NTS SO Commodity Charge that applied from 1 October 2010 was set on 30 July 2010 in order to give the required two months notice of the change. When setting the NTS SO Commodity Charge, National Grid is required to forecast the System Operation (SO) costs for the year, including the cost of shrinkage, which includes own use gas (OUG) and unaccounted for gas (UAG). The October 2010 charge was set considering the prevailing volume of unaccounted for gas (UAG) and prior to the discovery of a significant meter error at the Aberdeen offtake. The meter error was discovered and corrected on 10 August 2010; notified to the industry on 24 September 2010<sup>1</sup>; and discussed at the October 2010 Offtake Arrangements Workstream meeting<sup>2</sup>. Following the correction of the Aberdeen meter error and other actions to reduce underlying levels of UAG, there is now evidence of a sustained reduction in absolute UAG volumes of 33% (comparing July and October). This, coupled with a reduction in wholesale gas prices from those forecast when charges were set, has resulted in a significant reduction in forecast shrinkage costs for 2010/11 and therefore the SO allowed revenue for 2010/11. Since this was not known when SO Commodity Charges were set for October 2010, they would recover a higher level of costs than are now expected to be incurred during 2010/11.

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<sup>1</sup> Meter Error SC006, Scotia Gas Networks

<sup>2</sup> <http://www.gasgovernance.co.uk/OA/081010>

This has been compounded by the ongoing process to reconcile previously notified meter errors. To reflect the progress that has been made in assessing these errors since charges were last set, including the expectation that the Braishfield meter error<sup>3</sup> will be reconciled by the end of 2010/11<sup>2</sup>, we have increased our forecast of meter error reconciliations in 2010/11 from c.£19m to c.£28m. The associated credit to shrinkage costs in 2010/11 is therefore larger than previously expected, further reducing the SO allowed revenue in 2010/11.

The combined effect of reduced shrinkage costs due to declines in underlying UAG and credits from meter error reconciliations means that the forecast SO collected revenue in 2010/11 would be expected to exceed the SO allowed revenue by approximately 14% without a further price change.

We consider a third price change in 2010/11 is necessary to ensure that charges remain cost reflective in 2010/11 for shippers currently using the system.

### Changes to charges from 1 February 2011

The following changes will be made on 1 February 2011 to the NTS Commodity Charge and the St. Fergus Compression Charge. **All other charges will remain unchanged and as per the October 2010 Charging Statement.**

	April	October (current)	February	Average for 2010/11 <sup>4</sup>
<b>NTS SO Commodity Charge</b>	0.0196	0.0192	<b>0.0051</b>	0.0171
<b>St. Fergus Compression Charge</b>	0.0054	0.0138	<b>0.0116</b>	0.0095

### NTS SO Commodity Charge

The revised level of the **NTS SO Commodity Charge**, as applied to both entry and exit gas flow allocations in February and March 2011, is **0.0051** p/kWh. This has decreased from the indicative level of 0.0057 p/kWh due to updates of actual and forecast revenues for 2010/11. The charge is in line with the ranges stated in the Indicative Notice. The revised charge is a decrease of 73% on the current rate of 0.0192 p/kWh and is caused mainly by the changes to shrinkage costs in 2010/11, as outlined above, and the application of these changes over a two-month period.

### St. Fergus Compression Charge

The **St. Fergus Compression Charge** levied at the Total Oil Marine (TOM) sub-terminal at St. Fergus on flow allocations in February and March 2011 will decrease to a level of **0.0116** p/kWh, a reduction of 16% on the current rate of 0.0138 p/kWh and in line with our Indicative

<sup>3</sup> Meter Error SC001, Scotia Gas Networks

<sup>4</sup> Calculated from the forecast annual revenue collectable from the charge and the relevant forecast annual chargeable volumes

level of 0.0115 p/kWh. The reduction compared to current prices is due primarily to adjustments in wholesale gas prices.

Customers should note that further changes in charges will apply from 1 April 2011, as previously notified. Final charges to apply from this date will be published in a separate notice two months in advance of the changes.

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.

Yours sincerely

**Anne Bennett**  
**Charging and Revenue Manager**