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Dear Ian,

Indicative notice of NTS Charges to apply from 1 February 2014 (SO Charges only)

I am writing to give notice of our intention to make changes to NTS gas charges that will take effect on 1 February 2014 in respect of financial year 2013/14 revenues, in particular the SO Commodity charges for Entry and Exit, and the St Fergus Compression charge.

The SO charges that applied from 1 October 2013 were set on 31 July 2013 in order to give the required two months notice of the change. When setting SO charges National Grid is required to forecast the system operation costs for the year, including the cost of shrinkage. There have been a number of changes to our forecasts which are detailed below.

The October 2013 charge was set prior to the resolution of a significant meter error at the Aberdeen Offtake. There is now an expectation that the correction of the Aberdeen meter error is likely to occur in 2013/14. Furthermore, to reflect the progress that has been made in assessing the ongoing process to reconcile the previously notified Aberdeen meter error we have included our updated forecast of c. £18m for the meter error reconciliation in 2013/14. This meter reconciliation is subject to an industry process, through the Offtake Arrangements Workgroup¹, which we believe is likely to complete in time to invoice the reconciliation before the end of the financial year.

There is also evidence of a reduction in the prevailing volume of unaccounted for gas (UAG) (comparing estimates calculated in July 2013 that formed part of October 2013 charges and actuals being calculated during October 2013). This results in a reduction in total forecast shrinkage costs for 2013/14 and therefore the SO allowed revenue for 2013/14. As this was not known when SO Commodity charges were set for October 2013, the October SO Commodity charges would recover a higher level of costs that are now expected to be incurred during 2013/14.

¹ <http://www.gasgovernance.co.uk/OA>

The combined effect of reduced shrinkage costs and a credit from the meter error reconciliation means that the forecast SO collected revenue in 2013/14 is expected to exceed the SO allowed revenue by approximately 7%.

In addition, due to lower forecast volumes of compressor fuel required at the Total Oil Marine (TOM) sub-terminal at St. Fergus, we expect to revise the St. Fergus Compression charge.

We consider that a third price change in 2013/14 is necessary to ensure that charges remain cost reflective in 2013/14 for shippers currently using the system. To this end, we believe a shorter indicative notice period of 3 months (compared to the standard 150 days) can be justified, particularly given the extent of the predicted over-recovery.

The following are our current central forecasts for charges to **apply from 1 February 2014**:

- The indicative **NTS SO Commodity charge**, as applied to both entry and exit flows, is 0.0173 p/kWh. This is a decrease of 31 % and is caused mainly by the changes to shrinkage costs in 2013/14 and the meter reconciliation. Due to the length of the period that the price change will apply to we believe the range to be -30% & +50%, corresponding to 0.0117 p/kWh to 0.0263 p/kWh (the higher up side includes the scenario where the meter reconciliation does not take place in 2013/14).
- The **St. Fergus Compression charge** levied at the Total Oil Marine (TOM) sub-terminal at St. Fergus is expected to decrease to an indicative level of 0.0102 p/kWh, a reduction of 50% on the current rate. This reduction is due primarily to adjustments in forecast compressor fuel requirements at the St. Fergus Terminal. We estimate the range on this charge to be +/- 25%.

Final notification of these changes will be published by 1 December 2013 to provide 2 months notice before coming into effect. The change would apply to the SO Commodity charge and the St. Fergus Compression charge and would be levied on relevant flows during February and March only. This will have the impact of reducing the forecast SO over-recovery to zero for 2013/14.

Please note that we shall be issuing a 150 days Indicative notice of NTS charges to apply from 1 April 2014 by 1 November 2013 in line with our relevant Licence and UNC obligations.

If you have any questions about this Indicative Notice, or NTS charges in general, please contact myself or Colin Williams on 01926 655916, Karin Elmhirst on 01926 655540 or alternatively email to box.transmissioncapacityandcharging@nationalgrid.com.

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