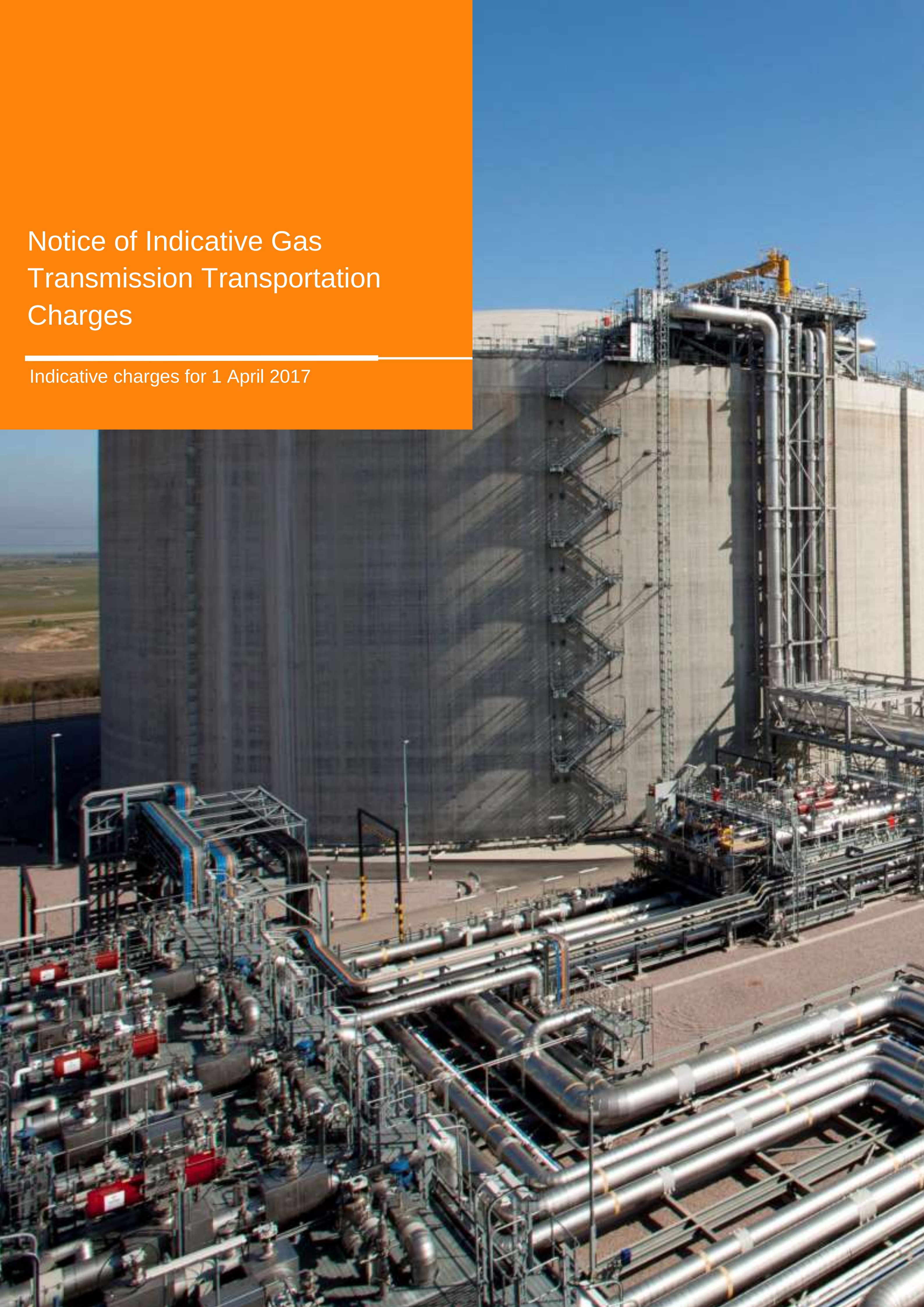
Notice of Indicative Gas Transmission Transportation Charges

Indicative charges for 1 April 2017



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Introduction

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 2017. A Notice of the actual charges will be published by 1 February 2017, to provide the two months' notice required by the Licence and Network Code obligations.

For the avoidance of doubt all charges not mentioned in this notice are unchanged from those in the 1 October 2016 Transportation Charging Statement.

This notice is split into four parts:

- **TO Charges**
    - TO Entry and Exit Commodity
    - DN Pension Deficit
    - NTS Meter Maintenance
- **SO Charges**
    - SO Entry and Exit Commodity
    - St Fergus Compression
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Basis of preparing Indicative charges

National Grid sets its charges to recover the price control allowances set by Ofgem. The current RIIO-T1 price control applies from 1 April 2013 to 31 March 2021.

Charging Base

Based on our current view of gas demand in 2017/18, the charging base, is at a similar level to that forecast for 2016/17 at October 2016 charges setting.

However, we are expecting changes within the different sectors of demand. Forecast gas exports to Europe are higher (12 TWh) than last years' forecast flows. Demand at the LDZ and NTS Industrials are also forecast to increase (6 TWh). Gas exports to Ireland have been adjusted up by a small amount (3 TWh). These increases are set against a reduction in the forecast gas demand for electricity generation which is expected to be lower than in 2016/17 by about 25 TWh.

TO Charges

TO Allowed Revenues

TO Maximum allowed revenue, TO MAR (which is shared 50:50 between Entry and Exit activities) has increased from the 2016/17 level of £800m to a level of £840m, an increase of £40m (5%). The details behind this increase are listed below:

- Base Price Control Revenue (BR) has increased by £104m principally due to a rise in the underlying base revenue and an inflationary adjustment.
- Pass through items have been adjusted to increase TO revenue by £1.4m.
- National Grid has a Licence Condition relating to National Innovation Competition funding (NICF) which allows funding for networks to provide innovative low carbon or environmental projects. We have assumed an NICF value of £7m for 2017/18. The funding direction from Ofgem is expected in early December so any change will be accommodated in the Final charges.
- The Permits revenue last year of £32m, in the Output Incentive adjustment term, no longer applies and so this reduces the TO allowed revenue by £32m in 2017/18.
- The over recovery from 2015/16 carries forward with a 2 year lag to 2017/18. The value of this over recovery (TOK) is £6m which is equivalent to a decrease in allowed revenues of £6m.

The TO MOD value adjusts for a number of items through an annual iteration of Ofgem's Price Control Financial Model (PCFM). It will be confirmed by Ofgem by early December 2016.

With the creation of the new National Grid Gas Distribution business, and the associated ring-fencing of its pension liabilities, there are some changes to the way the DN Pension Deficit will be funded from 1 April 2017. The National Grid DNs (RDNs) will pay the future Pensions Deficit costs directly and not via the DN Pensions Deficit recharge. There will be a two year period where they will continue to fund the legacy deficit via the Pensions Deficit charge. After this, the charge will no longer apply to the RDNs.

This means that the DN Pension Deficit charge for the RDNs will reduce from current levels by about £10m per year from April 2017. Existing Independent DNs are unaffected by this change.

The TO allowances for pensions will change from 2018/19 so there is no impact on TO MAR for 2017/18. Other than this change the DN Pension Deficit charges, outlined in Table 1 below, have been revised by an inflationary factor. Any update to this number will be included in the final charges to be issued in January 2017.

The main uncertainties around the TO Maximum Allowed Revenue relate to the MOD term and the NICF value both of which will be confirmed by Ofgem in time to set final charges for April 2017.

A summary table of Allowed Revenues is shown in **Appendix 1** of this document.

NTS TO Entry Commodity charge

The NTS TO Entry Commodity charge levied on entry flows is estimated to increase to **0.0522** p/kWh from its current rate of 0.0481 p/kWh and from an average rate for 2016/17 of 0.0488 p/kWh, representing an increase of 9% and 7% respectively. With auction income forecast to decrease by £4m in 2017/18 and the TO Entry allowed revenue increasing by £19m, the increase in this rate is primarily due to the increase in the revenue (+£23m) that we are seeking to recover from TO Entry Commodity charges.

Given the uncertainty around the TO allowed revenue we have calculated the range may vary from 0.0490 p/kWh (-5%) to 0.0537 p/KWh (5%).

NTS TO Exit Commodity charge

The TO Exit Commodity charge is expected to increase from its current rate of 0.0212 p/kWh to **0.0235** p/kWh, an increase of 11%, and an increase of 9% on the 2016/17 average of 0.0215 p/kWh.

The TO Exit Commodity charge is used to collect a potential shortfall in Exit Capacity income compared to the allowed. The shortfall is estimated to be about £11m higher than in 2016/17.

We estimate the range around this charge to be around 0.0202 p/kWh (-10%) and 0.0249 p/kWh (+10%).

A summary of TO Commodity charges can be found in **Appendix 2.**

NTS TO Exit Capacity charges

NTS Exit Capacity charges are normally updated once a year effective from October.

The latest published indicative Exit Capacity charges for 2017/18 were published on 1 May 2016 and utilised for user commitment in the 2016 Exit Capacity Application Window. These can be found at the following link, http://www.gasgovernance.co.uk/sites/default/files/Exit%20capacity%20notice%201%20may%202016.pdf

Distribution Network (DN) Pension Deficit charge

DN Pension costs are estimated to be £38.8m in 2009/10 prices and including inflation equates to £48.96m for 2017/18. Any update to this number will be included in the final charges to be issued in January 2017.

The Indicative monthly and annual DN Pension Deficit charges for 2017/18 are shown in **Table** 1.

Table 1 DN Pensions Deficit Charges

Distribution Network	Monthly Charge, £	Annual Charge, £m
East of England	587,000	7.04
London	342,214	4.11
North West	403,106	4.84
West Midlands	291,065	3.49
North of England	596,831	7.16
Scotland	412,144	4.95
South of England	954,541	11.45
Wales and the West	571,558	6.86

Metering Charges

Meter maintenance charges will rise at the rate of inflation as in previous years.

SO Charges

SO Allowed Revenues

The SO allowed revenue has decreased by £92m from the 2016/17 level of £275m to £183m (-33%). Compared to 2016/17 October charge setting, the main changes are:

- Base Revenue is forecast to reduce by £75m due mainly to a reduction in legacy revenue drivers.
- A £10m over recovery carried forward from 2015/16, decreases allowed revenue in 2017/18 as compared to a £4m under recovery in 2016/17 (from 2014/15) giving a -£14m change from 2016/17.

As in the case of the TO MOD term, the SO MOD value adjusts for a number of SO items through an annual iteration of Ofgem's Price Control Financial Model (PCFM) and will be confirmed by Ofgem in by early December 2016.

NTS SO Commodity Charges

The Indicative level of the NTS SO Commodity charge, as applied to both entry and exit flows, is **0.0084** p/kWh compared to the current rate of 0.0129 p/kWh (-35%) and from an average rate for 2016/17 of 0.0136 p/kWh (-38%). This decrease in rate is driven by the change in SO revenue to be collected.

The main uncertainty around this charge is the value of shrinkage costs and the SO MOD term. To reflect this we estimate a variation of -20% / +20% around our forecast of the SO Commodity rate.

Other SO Charges

- The **St Fergus Compression** charge levied at the Total Oil Marine (TOM) sub-terminal at St. Fergus is expected to increase from its current level of 0.0083 p/kWh to an Indicative level of **0.0104** p/kWh, an increase of 25% and compared to an average rate of 0.0127 p/kWh during 2016/17, a decrease of 18%. Our forecast of the costs for the compression at the sub-terminal are slightly lower, but forecast increase in flows at the TOM sub-terminal have had a greater impact on the rate reduction. We estimate the range on this charge to be -30% / +30% on our forecast of the St Fergus Compression charge.
- The **Connected System Exit Point (CSEP) Administration** charge is expected to reduce to **0.0755** p/day (or £**0.28** pa) per supply point in April 2017. Other administration charges are presently expected to remain unchanged. These charges will cease to apply upon implementation of Xoserve's UK Link replacement (Project Nexus) currently expected to be June 2017.
- A summary of the SO charges can be found in **Appendix 2**.

Supporting Information

Guidance and supporting charge setting information will be made available on the National Grid website at http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Tools-and-Models/.

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.gasgovernance.co.uk/ntscmf.

If you are unable to attend NTSCMF or 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 Colin Williams (01926 655916) or Karin Elmhirst (01926 655540) or email the Transmission charging team at box.transmissioncapacityandcharging@nationalgrid.com.

Other information

Further information on the methods and principles on which Transmission transportation charges are derived is set out in Uniform Network Code (UNC) – Transportation Principal Document, Section Y – Charging Methodologies. A copy of the UNC can be found at www.gasgovernance.co.uk/TPD.

Details of National Grid and its activities can be found on the National Grid Internet site at http://www2.nationalgrid.com/.

An electronic version of this publication can be found on our web site at www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Current-charges/.

For an overview of our commitment to customers, please see: http://www.nationalgrid.com/uk/EnergyandServices/TransmissionCustomerCommitment/

Appendix 1

Allowed Revenues used for Charge Setting

£m

	2016/17 at Oct 16	2017/18 at Apr 17 Indicative	Change
TO Maximum Allowed Revenue	800	840	40
SO Maximum Allowed Revenue	275	183	-92
NTS TO Entry Commodity	311	334	23
NTS TO Exit Commodity	140	151	11
NTS SO Commodity (Entry & Exit)	173	108	-65
St. Fergus Compression	16.6	12.9	-3.7

Appendix 2

Summary of Commodity Charges

The table below summarises the Indicative changes to the Commodity charges being made in April 2017. A comparison between the current and average Commodity rate during 2016/17 and the April 2017 indicative is also provided.

				% Change…	
Charge p/kWh	Oct 16 (Current)	Average 2016/17	April 2017 Indicative	to current	to Average 2016/17
NTS TO Entry Commodity	0.0481	0.0488	0.0522	9%	7%
NTS TO Exit Commodity	0.0212	0.0215	0.0235	11%	9%
NTS SO Commodity (Entry & Exit)	0.0129	0.0136	0.0084	-35%	-38%
St. Fergus Compression	0.0083	0.0127	0.0104	25%	-18%

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