

Issued 30 January 2017

Notice of Revised NTS Charges to apply from 1 April 2017

This notice is issued in line with National Grid Gas' ("National Grid") Transporters Licence in respect of the NTS and our obligations contained in the Uniform Network Code, which requires National Grid to provide at least two months' notice of changes to its gas transportation charges. This notice details changes that will apply from 1 April 2017 and follows the 'indicative notice' published on 2 November 2016.

A copy of our document "**Notice of Gas Transmission Transportation Charges effective from 1 April 2017**", which contains all charges that will apply from 1 April 2017 is available on the National Grid website <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Current-charges/> and should be read in conjunction with this note.

This note contains a summary explanation of the changes to the charges.

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 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 £848m, an increase of £48m (6%). Key elements of this change are the Base Price Control revenue, an increase of £109.2m, which is offset by reductions of £32m from Permits that are no longer applicable, £6m in the Network Innovation funding (NICF) and £23m in the value of K.

NTS TO Entry Commodity Charge

The NTS TO Entry Commodity charge levied on entry flows will increase to **0.0530** 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 10% and 9% respectively. With auction income forecast to decrease by £3m in 2017/18 and the TO Entry allowed revenue increasing by £24m, the increase in this rate is primarily due to the increase in the revenue (+£27m) that we are seeking to recover from TO Entry Commodity charges.

NTS TO Exit Commodity Charge

The TO Exit Commodity charge will increase from its current rate of 0.0212 p/kWh to **0.0234** p/kWh, an increase of 10%, 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 £10m higher than in 2016/17.

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

Pension Deficit

With the creation of the new National Grid Distribution Company the method of collecting the costs for funding the Distribution Network (DN) Pensions Deficit will change. DN Pension costs are estimated to be £39.6m in 2009/10 prices and including inflation equates to £50.3m for 2017/18.

The revised DN Pensions Deficit rates are given in the table below. A revised inflation forecast has also been applied.

DN Network	16/17 (£)	17/18 (£)	Change (£)
East of England	916,238	591,655	-324,583
London	534,155	344,928	-189,228
North West	629,201	406,303	-222,898
West Midlands	454,317	293,373	-160,944
North of England	583,579	601,564	17,985
Scotland	402,993	415,413	12,420
South of England	933,346	962,111	28,765
Wales and the West	558,867	576,091	17,224
Total Monthly	5,012,696	4,191,438	-821,259
Total Annual	60,152,357	50,297,254	-9,855,103

Meter Maintenance Charges

Meter maintenance charges will rise by an inflationary amount as in previous years. The revenue recovered will therefore increase from £1.67m to £1.72m. Full details are given in **the Notice of Revised Gas Transmission Transportation Charges, effective from 1 April 2017**.

SO Allowed Revenues

The SO allowed revenue has decreased by £59m from the 2016/17 level of £275m to £216m (-22%). The main changes are due to a reduction in the Base revenue from the Legacy Revenue Drivers and a decrease in the value of K by £14m compared to last year. There is an offsetting effect of a £20m increase in the forecast cost of shrinkage principally due to an increased forecast of gas volumes required and a rise in forecast gas prices.

NTS SO Commodity Charges

The level of the NTS SO Commodity charge, as applied to both entry and exit flows, is **0.0105** p/kWh compared to the current rate of 0.0129 p/kWh (-19%) and from an average rate for 2016/17 of 0.0136 p/kWh (-23%). There is a £32m increase in the forecast of the SO MAR for 2017/18 compared to the indicative value due mainly to the revised forecast in shrinkage costs. This change has resulted in the final SO Commodity rate being outside of our indicative range by +0.0004 p/kWh.

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 a level of 0.0103 p/kWh, an increase of 24% and compared to an average rate of 0.0127 p/kWh during 2016/17, a decrease of 19%.

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 will 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 **Table 2** of the Appendix.

Supporting Information

Guidance and detailed 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/>.

This includes:

- detailed information about the components of the TO and SO allowed revenues;
- how they have changed since April's charges were set; and
- how this information in conjunction with the charging base is used to calculate charges.

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/>.

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 Hayley Burden (01926 656972) or email the 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/>.

National Grid's Transportation Model is available to parties that have signed the licence agreement for the model. Details of how to obtain the model can also be found at the following link <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Tools-and-Models/>.

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

Table 1 Forecast Allowed Revenues for Financial year 2017/8

	2016/17	2017/18 at April 2017	Change
TO Maximum Allowed Revenue	£800m	£848m	£48m
SO Maximum Allowed Revenue	£275m	£216m	-£59m
Revenues to be collected from:			
NTS TO Entry Commodity	£311m	£338m	£27m
NTS TO Exit Commodity	£140m	£150m	£10m
NTS SO Commodity	£173m	£134m	-£39m
St. Fergus Compression	£16.6m	£18.3m	£1.7m

Table 2 Summary of Commodity Charges

NTS Charge	Oct 16	Apr 17	Change
TO Entry Commodity	0.0481	0.0530	0.0049
TO Exit Commodity	0.0212	0.0234	0.0022
SO Commodity (Entry & Exit)	0.0129	0.0105	-0.0024
St. Fergus Compression	0.0083	0.0103	0.0020