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31 January 2012

Dear Hannah,

## **Notice of Revised Gas Transmission Transportation Charges from 1 April 2012**

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 2012 and follows the 'indicative notice' published on 13 December 2011.

Following the extension of our current Price Control by one year (the rollover year, 2012/13) and the publication of Ofgem's Final Proposals, below are the changes to charges that will apply from 1 April 2012.

### **NTS TO Entry Commodity Charge**

The **NTS TO Entry Commodity** charge levied on entry allocations will be **0.0257 p/kWh**, representing an increase of 11% on the current charge of 0.0232 p/kWh. This is an increase on that expected at the indicative stage (0.0238 p/kWh), which is mainly due to a revision to our allowed revenue following Ofgem's review on the Price Control extension. Total TO allowed revenue has risen by £76m compared to 2011/12. £40m of this reflects an increase in our core allowed revenues following the Price Control review, £13m from capital expenditure incentive revenue adjustments carried forward from our previous Price Control, £13m for funding additional costs for the Glenmavis Liquefied Natural Gas (LNG) facility following a consultation process<sup>1</sup>, and the remainder from an under recovery in 2011/12 which will be collected in 2012/13.

### **NTS SO Commodity Charges**

The revised level of the **NTS SO Commodity** charge, as applied to both entry and exit allocations, will be **0.0242 p/kWh**, a decrease of 2% compared to the current level of 0.0246 p/kWh. The rate is higher than that anticipated at the indicative stage (0.0230 p/kWh) but within the indicative range. The underlying SO allowed revenue has fallen due to lower

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<sup>1</sup>[http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Documents1/120106\\_GM\\_public\\_decision\\_letter.pdf](http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Documents1/120106_GM_public_decision_letter.pdf)

shrinkage costs but this has been offset by taking into account the full effect of the impact of changes due to exit reform, which is described in more detail below.

Prior to the implementation of the enduring exit arrangements on 1 October 2012, the revenue that would have been collected from exit charges at interruptible sites had they been firm, was collected through SO Commodity charge. This revenue is known as 'charges foregone'. The enduring exit regime removes the concept of interruptible capacity and also 'charges foregone'. This means that prior to 1 October 2012 'charges foregone' are included in the SO Commodity charge but not from 1 October 2012 (see section below Exit Reform - TO Exit Commodity charges).

The April SO Commodity charge assumes that various meter error reconciliations totalling c£35m (mainly for Aberdeen) will take place during 2012/13. This assumption will be reviewed prior to updating prices for October 2012.

The **St. Fergus Compression charge** levied at the Total Oil Marine (TOM) sub-terminal at St. Fergus terminal will decrease to **0.0167 p/kWh**, which is a 3% reduction on the current charge of 0.0172 p/kWh and within the indicative range.

### Summary of changes to Commodity Changes

The table below summarises the changes to the commodity charges being made in April. A comparison between the average commodity rate during 2011/12 is also provided.

Charge	Oct 2011 (Current) p/kWh	Average 11/12 p/kWh	April 2012 Indicative p/kWh	April 2012 Final p/kWh
NTS TO Entry Commodity	0.0232	0.0224	0.0238	0.0257
NTS SO Commodity	0.0246	0.0225	0.0230	0.0242
St. Fergus Compression	0.0172	0.0161	0.0172	0.0167

### Administration Charges

The Connected System Exit Points (CSEP) Administration charge is to reduce to **0.1012** pence per day per supply point from the current level of 0.1020 pence per day per supply point (£0.37 per annum).

### DN (gas distribution networks) Pension Deficit Charge

The DN Pension Deficit charges levied on the DNs on a monthly basis are being updated during the financial year 2012/13.<sup>1</sup> This follows a revision to National Grid's allowed recovery as set out in the rollover Price Control. The table below shows the revised levels.

<sup>1</sup> The share at each DN is unchanged from previous Price Control

Distribution Network	2012-13		
	Indicative	April 2012	
	Monthly Charge £	Monthly Charge £	per Annum £m
North of England	355,163	359,281.16	4.31
Scotland	245,259	248,102.95	2.98
South of England	568,029	574,615.80	6.90
Wales and the West	340,123	344,067.30	4.13
East of England	557,617	564,083.13	6.77
London	325,084	328,853.44	3.95
North West	382,928	387,368.29	4.65
West Midlands	276,495	279,700.97	3.36

### Exit Reform - Illustrative TO Exit Commodity Charges

As noted above, from 1 October 2012 – the implementation of the enduring exit regime - ‘charges foregone’ will no longer be collected through SO charges. Charging methodology change GCM05<sup>1</sup>, which was approved by the Authority in 31 March 2009, removes ‘charges foregone’ from NTS Transportation Charging Methodology and introduces a new commodity charge, the TO Exit Commodity charge. The TO Exit Commodity charge will be set when sales of firm exit capacity are below the agreed baseline. Where National Grid forecasts this to happen, less revenue will be collected from TO Exit Capacity charges and the TO Exit Commodity rate will be applied to exit flows to make up the shortfall. This is analogous to the way TO Entry commodity charge works on entry capacity.

We currently expect the TO Exit Commodity charge, as applied to the exit flows, to be around 0.0097 p/kWh. A reduction in the SO Commodity charge will take place at the same time as ‘charges foregone’ will no longer be included in our SO allowed revenue. To illustrate this, if there are no other changes to underlying SO costs, we would expect commodity charges to change in the following manner at 1 October 2012.

Commodity Charge	April 2012 p/kWh	Illustrative October 2012 p/kWh
SO Entry	0.0242	0.0181
SO Exit	0.0242	0.0181
TO Entry	0.0257	0.0257
TO Exit	-	0.0097
Total Commodity	0.0741	0.0716

An indicative rate of the new TO Exit Commodity charge will be available 150 days before 1 October 2012.

### Tools and Supporting Information

Supporting charge setting information will be made available on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>. We welcome any feedback you may have regarding the various tools and supporting information.

<sup>1</sup> <http://www.nationalgrid.com/NR/rdonlyres/C987719A-F76D-4EE4-A4D4-F915F8CF4AB9/33229/GCM05decisionletter.pdf>

These charge changes can be discussed in more detail at the Gas NTS Charging Methodology Forum (NTSCMF).

If you have any questions about this Notice, feedback, or NTS charges in general, please contact myself, Karin Elmhirst (01926 655540) or alternatively you can email [charging.enquiries@uk.ngrid.com](mailto:charging.enquiries@uk.ngrid.com)

Yours sincerely

Anne Bennett  
Charging and Revenue Manager