

31 July 2017

Revised NTS Charges to apply from 1 October 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 October 2017 and follows the 'indicative notice' published on 27 April 2017.

A copy of our document "**Notice of Gas Transmission Transportation Charges effective from 1 October 2017**", which contains all charges that will apply from 1 October 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 from 1 October 2017.

Charging Base

Updated demand forecasts were received at the end of May 2017 and a central forecast continues to be used. The revised forecasts show an increase in use of gas for power generation, as the preferred fuel above coal. This has contributed to a net increase in the demand forecast for 2017/18 which is 3% higher than at April 17 charge setting and 4% higher than at Indicative charge setting. Much of this increase in demand is assumed to be using the NTS Optional Commodity charge ('shorthaul').

This explanation of the changes to the charges is split into four parts:

- **TO Charges**
 - TO Entry and Exit Commodity
 - TO Entry Capacity Reserve prices 2018/19
- **SO Charges**
 - SO Entry and Exit Commodity
 - St Fergus Compression
- **Tools and Supporting Information**
- **Appendix**

TO Allowed Revenues

The TO allowed revenue (which is shared 50:50 between Entry and Exit activities) has decreased by £1m from the level used to calculate TO charges for April 2017 (down from £848m).

NTS TO Commodity Charges

NTS TO Entry Commodity Charge

The NTS TO Entry Commodity charge levied on Entry flows will decrease to **0.0509** p/kWh (-4%) from its current rate of 0.0530 p/kWh, and an average rate of 0.0516 p/kWh. This compares to the average rate of 0.0488 p/kWh in 2016/17.

As a result of a Licence condition, there has been a switch of Legacy Entry Capacity auction income from the SO to the TO revenue stream after 5 years in the SO (£17m). The revenue being collected from the TO Entry Commodity Charge has therefore decreased by c.£17m resulting in a reduction in this rate.

NTS TO Exit Commodity Charge

Taking into account the Exit Capacity charges and Capacity bookings for the remainder of the year including those from the July 2017 Application Window, the TO Exit Commodity rate is **0.0235** p/kWh. This is a small increase on the current rate of 0.0234 p/kWh. There will be £2m less revenue collected via Capacity charges in the 6 months from October 2017. This is due to reductions in Capacity bookings in the July 2017 Exit Capacity Application Window. This has contributed to the TO Exit Commodity rate rise.

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

NTS TO Capacity Charges

TO Entry Capacity Reserve Prices

Revised reserve prices for Capacity bids placed in the next AMSEC auction for gas year 2018/19 have been calculated using National Grid's Transportation Model¹, which has been updated to reflect changes in demand levels, the pipeline network, supply patterns, obligated Entry Capacity levels, and the cost of investment through the expansion constant, all of which may affect the charges. All prices have been calculated using the NTS obligated Entry Capacity levels.

Although annual demand forecast has increased, the forecast peak demand level has reduced from 5664 GWh/d in 2017/18 to 5584 GWh/d in 2018/19. Barrow and St Fergus have seen the largest changes due to the pattern of supply and demand changes, in particular decreases in demand in Scotland and the North West has meant flows from these terminals need to travel further into the NTS and so the prices have risen.

The revised Entry Capacity reserve prices can be found in **Table 3** MSEC Reserve Prices of the appendix in this Notice and in Table 4 of **the Notice of Gas Transmission Transportation Charges effective from 1 October 2017**.

¹ See Supporting Information section for information on how to obtain a copy of our model.

Entry Rolling Monthly Auction prices for Interconnection Points have recently been published² and can be seen **Table 10** of the **Notice of Gas Transmission Transportation Charges effective from 1 October 2017**.

NTS Exit Capacity Charges

NTS Exit Capacity charges including for the Interconnector Points, effective from 1 October 2017, have been published^{3 4} in a separate notice on 27 April 2017 and can be found in **Tables 8, 13 and 14**, in the **Notice of Gas Transmission Transportation Charges effective from 1 October 2017**.

SO Allowed Revenues

SO allowed revenue for 2017/18 is forecast to decrease by £5m to £210m, compared to when charges were set for April 2017. This decrease reflects a fall in external costs relating to shrinkage and Operating Margins.

The overall income to be collected from the SO Commodity Charge has reduced by £2.4m compared to the April 17 charge setting. However, the balance of the increase in demand and the demand assumed to be using 'shorthaul' tariff has contributed to the slight increase in the SO Commodity charge compared with current prices.

NTS SO Commodity Charges

The NTS SO Commodity charge, as applied to both Entry and Exit flows, is **0.0106** p/kWh (1%) compared to the current rate of 0.0105 p/kWh. This means that the average NTS SO Commodity rate for 2017/18 is 0.0106 p/kWh compared to an average rate for 2016/17 of 0.0136 p/kWh.

Other SO Charges

The **Compression Charge** levied at the North Sea Midstream Partners (NSMP) sub-terminal at St. Fergus is to increase from its current level of 0.0103 p/kWh to **0.0104** p/kWh, a 1% increase. Although forecast costs for this compression have been reduced by £2m, when combined with a decrease in the forecast of throughput at this location, the result is a slight increase in this charge.

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

² <http://gasgovernance.co.uk/sites/default/files/ggf/page/2017-06/RMSEC%20notice%20for%20Oct%202017%20inc%20IPs.pdf>

³

<http://gasgovernance.co.uk/sites/default/files/ggf/Notice%20of%20Indicative%20Gas%20Transmission%20Transportation%20Charges%20for%20October%202017.pdf>

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<http://gasgovernance.co.uk/sites/default/files/ggf/Notice%20of%20NTS%20Annual%20Quarterly%20%28Entry%20and%20Exit%29%20Interconnection%20Point%20%28IP%29%20Reserve%20Prices.pdf>

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.

National Grid will be making the Transportation Model 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 link above. 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), karin.elmhirst@nationalgrid.com or email the charging team at box.transmissioncapacityandcharging@nationalgrid.com.

Comments & Feedback

As part of our commitment to customers, National Grid welcomes comments and feedback on the information contained in this notice. In particular, to ensure that information is provided and presented in a way that is of most use to customers, we would welcome specific feedback on:

- The level of numeric detail provided to explain charge changes;
- The quality of the explanation given to describe and explain charge changes;
- Information that is not useful and could be omitted;
- Information that is missing that could be added.

These should be sent to:

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Appendix

Table 1 Forecast Allowed Revenues for Financial year 2017/18

	2017/18 at April 2017	2017/18 at October 2017	Change
TO Maximum Allowed Revenue	£848m	£847m	-£1m
SO Maximum Allowed Revenue	£215m	£210m	-£5m
Revenues to be collected from:			
NTS TO Entry Commodity	£337.7m	£320.3m	-£17.4m
NTS TO Exit Commodity	£149.5m	£148.3m	-£1.2m
NTS SO Commodity	£133.6m	£131.2m	-£2.4m

Table 2 Summary of Commodity Charges

NTS Charge	At April 2017	Effective from 1 Oct 17	Change
TO Entry Commodity	0.0530	0.0509	-0.0021
TO Exit Commodity	0.0234	0.0235	0.0001
SO Commodity (Entry & Exit)	0.0105	0.0106	0.0001
St. Fergus Compression	0.0103	0.0104	0.0001

Table 3 MSEC Reserve Prices

MSEC Reserve Prices Pence per kWh per day			
Coastal Terminals & LNG Importation	Y From 1 Oct 16 to 30 Sep 17	Y+1 From 1 Oct 17 to 30 Sep 18	Y+2 From 1 Oct 18 to 30 Sep 19
Bacton UKCS	0.0103	0.0109	0.0111
Barrow	0.0045	0.0014	0.0037
Easington & Rough	0.0134	0.0140	0.0142
Isle of Grain	0.0090	0.0094	0.0096
Milford Haven	0.0223	0.0228	0.0232
St Fergus	0.0490	0.0488	0.0504
Teesside	0.0107	0.0110	0.0110
Theddlethorpe	0.0135	0.0142	0.0142
Onshore Fields and Connections			
Burton Point	0.0001	0.0001	0.0001
Hatfield Moor	0.0050	0.0053	0.0055
Hole House Farm	0.0001	0.0001	0.0001
Wytch Farm	0.0001	0.0001	0.0001
Storage			
Barton Stacey	0.0001	0.0001	0.0001
Canonbie	0.0047	0.0041	0.0044
Caythorpe	0.0127	0.0135	0.0136
Cheshire	0.0001	0.0001	0.0001
Dynevor Arms	0.0001	0.0001	0.0001
Fleetwood	0.0011	0.0010	0.0010
Garton	0.0138	0.0159	0.0156
Glenmavis	0.0142	0.0148	0.0150
Hatfield Moor	0.0050	0.0053	0.0055
Hornsea	0.0138	0.0126	0.0128
Partington	0.0001	0.0001	0.0001
Constrained LNG			
Avonmouth	0.0001	0.0001	0.0001