

Indicative Gas Transportation Charges from 1 October 2008 for East of England, London, North West and West Midlands Distribution Networks

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 October 2008 for East of England, London, North West and West Midlands distribution networks in line with the GT Licence requirement to provide 150 days' notice of such proposals.

The notice of the definitive distribution transportation charges from 1 October is expected to be published by 1 August, in line with the two months' notice requirement within each Network Code.

2. Indicative Distribution Transportation Charges

The indicative average changes to distribution transportation charge levels from 1 October 2008 are shown in Table 1.

There is still uncertainty around the level of change that will be necessary at October and the figures provided are the present central estimates.

Table 1. Indicative average changes in LDZ Transportation Charges from 1 October 2008

Distribution Network:	East of England	London	North West	West Midlands
Indicative average change from October 2008	+8.0%	-9.7%	-1.6%	-11.7%

The percentage change for each network would apply to the customer charges and to the standard LDZ system charges on average. However the standard LDZ system capacity and commodity charges will be rebalanced onto a 95/5 capacity/commodity split basis in line with the change to the methodology previously consulted upon. In order to clarify the combined impact of the indicative changes together with the methodology change, the indicative customer charge and standard LDZ system charge rates are shown in detail for each network in the appendix. For other charges, including administration charges and the Optional LDZ charge, which are determined on an individual cost-reflective basis, the present level of the charge is the best indication of the October charge; however we expect to review the level of the administration charges prior to October.

Note that we expect to adjust the level of transportation charges again on 1 April 2009, and then at April each year instead of October, in line with the requirements of our Gas Transporter Licence. The charges from 1 October 2008 are therefore expected to apply only for the following six months. The average percentage changes shown have been determined from the forecast impact on our overall revenue levels relative to the existing charge levels for the six month period. The change for any individual shipper or site will depend upon their particular circumstances.

The reasons for the level of change shown for each network and the uncertainties surrounding the potential changes are explained in the following sections.

3. Reasons for the Indicative Level of Change by Network

Table 2 below provides a breakdown of the factors behind the level of change for each network. Each of these factors is explained in the following sections.

Table 2. Breakdown of Indicative Changes to LDZ Transportation Charges for October 2008

	East	London	NW	WM
Annual change required to bring charges into line with underlying price control	1.5%	-2.2%	-2.0%	-2.8%
Mains and Services Replacement Adjustment and other incentives	3.6%	-6.6%	-1.6%	-4.0%
Under-recovery from 2007/8	-0.5%	3.3%	2.7%	0.1%
Total change required on an annual basis	4.6%	-5.5%	-0.9%	-6.7%
<i>Uplift factor for October change</i>	<i>x 1.75</i>	<i>x 1.75</i>	<i>x 1.75</i>	<i>x 1.75</i>
Indicative October 2008 change	8.0%	-9.7%	-1.6%	-11.7%

3.1. Annual change required to bring charges into line with underlying price control

This represents the level of annual change to bring the charges into line with the core price control allowed revenue for Formula Year 2008/9 (April 2008 to March 2009), plus the shrinkage allowance and cost pass through items. The core price control allowed revenue is set for each year of the new distribution price controls covering 2008/9 to 2012/13. The cost pass-through items include business rates, licence fee and NTS pensions deficit charge.

For East of England DN the level of transportation charge increase at October 2007 (+2.6%) was much lower than for other networks and so a further increase is required whereas for the other networks decreases are required.

3.2. Mains and Services Replacement Adjustment and other Incentives

The distribution price controls are based upon an assumed level of cost each year for replacing distribution mains and services in each network. Where the gas transporter carries out a different value of mains or services replacement activity or where the activity is undertaken either more or less efficiently than assumed within the price control, this gives rise, through sharing factors, to a variation in the allowed revenue.

The variations shown relate in large part to forecast variations in the value of mains and services replacement work undertaken in each network relative to that underlying the core allowance for 2008/9 for each network. For example, in East of England DN the value of such work which underlies the core allowance in 2008/9 is substantially lower than for later years of the price control period. We are expecting to do a higher level of work in 2008/9, closer to the average level over the 5 years of the price control, so leading to a positive charging adjustment. The opposite impact occurs in the other networks to varying degrees.

3.3. Under-recovery from 2007/8

Throughput levels experienced in 2007/8 were broadly similar to those forecast when setting charges leading to only a small variation in collected revenue from forecast over the period.

Charges for London DN were set at October 2007 with the aim of under-recovering for 2007/8 by £10m and the actual under-recovery was in line with that aim. This has helped to smooth out the price changes for London DN.

The under-recovery in North West DN of around £9m was due to a combination of lower collected revenue than forecast, relating largely to lower capacity-related income, and slightly higher allowed revenue than forecast.

3.4. Uplift Factor for October Change

The effects on charge levels highlighted above have been in terms of annual impacts i.e. the level of change required if implemented at April 2008. Under the terms of its Licence, National Grid, along with other DNs, must endeavour to only change charges at October for 2008/9.

A change to charges at October needs to be much greater than that applied at April in order to have the same impact on revenue within the price control Formula Year which runs from April to the following March. At present around 43% of the Formula Year revenue is currently collected in the six months from April to September, with around 57% collected in October to March. Accordingly, the change to charges at October needs to be around 1.75 times the level of change at April in order to have the same revenue impact within the Formula Year.

4. Uncertainties around Indicative Transportation Charges

There are a number of factors which could lead the definitive charges implemented at October to vary from the indicative figures shown.

The indicative changes to charges depend upon forecasts of gas demand, supply point capacity and customer numbers by sector for 2008/9. We expect to update these forecasts prior to determining the definitive level of charges to apply from October.

If the level of gas demand is substantially different from that expected over the next three months, this will change the forecast over- or under-recovery position for the price control year.

The definitive mains replacement incentive position for 2007/8 will not be known until July. This, together with any changes to the forecast mains and services replacement workload for 2008/9, will affect the estimated allowed price control revenue for 2008/9 and hence the change to charge levels required for each network.

5. Impact on Gas Supply Prices

The extent to which any change in transportation charges is passed through to the consumer depends upon the shipper and gas supplier.

The potential impact on gas supply prices will vary by size of consumer and network. For a typical domestic consumer, distribution transportation costs currently represent approximately 20% of the gas supply price.

APPENDIX
INDICATIVE OCTOBER 2008 TRANSPORTATION CHARGE RATES FOR
EACH NETWORK

East of England

LDZ System Charges

LDZ System Capacity

Charge Code	Firm Capacity	Interruptible Capacity
ZCA	pence per peak day kWh per day	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.1431	0.0678
73,200 to 732,000 kWh per annum	0.1327	0.0629
732,000 kWh per annum and above	$0.6284 \times \text{SOQ}^{-0.1806}$	$0.2977 \times \text{SOQ}^{-0.1806}$
Subject to a minimum rate of	0.0145	0.0069

LDZ System Commodity

Charge Code	Commodity
ZCO	pence per kWh
Up to 73,200 kWh per annum	0.0220
73,200 to 732,000 kWh per annum	0.0204
732,000 kWh per annum and above	$0.1263 \times \text{SOQ}^{-0.2121}$
Subject to a minimum rate of	0.0019

LDZ System CSEP Charges

Invoice – ADC	CSEP Firm Capacity	CSEP Interruptible Capacity
	pence per peak day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1431	0.0678
73,200 to 732,000 kWh per annum	0.1327	0.0629
732,000 kWh per annum and above	$0.6646 \times \text{SOQ}^{-0.1939}$	$0.3148 \times \text{SOQ}^{-0.1939}$
Subject to a minimum rate of	0.0145	0.0069

	CSEP Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0220
73,200 to 732,000 kWh per annum	0.0204
732,000 kWh per annum and above	$0.1205 \times \text{SOQ}^{-0.2131}$
Subject to a minimum rate of	0.0019

East of England

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0718

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	20.9993
Monthly read supply points	22.3597

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0024

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0510 \times \text{SOQ}^{-0.2100}$

London

LDZ System Charges

LDZ System Capacity

Charge Code	Firm Capacity	Interruptible Capacity
ZCA	pence per peak day kWh per day	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.1343	0.0636
73,200 to 732,000 kWh per annum	0.1243	0.0589
732,000 kWh per annum and above	$0.5898 \times \text{SOQ}^{-0.1806}$	$0.2794 \times \text{SOQ}^{-0.1806}$
Subject to a minimum rate of	0.0133	0.0063

LDZ System Commodity

Charge Code	Commodity
ZCO	pence per kWh
Up to 73,200 kWh per annum	0.0224
73,200 to 732,000 kWh per annum	0.0208
732,000 kWh per annum and above	$0.1289 \times \text{SOQ}^{-0.2121}$
Subject to a minimum rate of	0.0020

LDZ System CSEP Charges

Invoice – ADC	CSEP Firm Capacity	CSEP Interruptible Capacity
	pence per peak day kWh per day	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1343	0.0636
73,200 to 732,000 kWh per annum	0.1243	0.0589
732,000 kWh per annum and above	$0.6239 \times \text{SOQ}^{-0.1939}$	$0.2955 \times \text{SOQ}^{-0.1939}$
Subject to a minimum rate of	0.0133	0.0063

	CSEP Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0224
73,200 to 732,000 kWh per annum	0.0208
732,000 kWh per annum and above	$0.1230 \times \text{SOQ}^{-0.2131}$
Subject to a minimum rate of	0.0020

London

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA

	Pence per peak day kWh per day
Capacity charge	0.0652

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI

Fixed charge	pence per day
Non-monthly read supply points	20.5644
Monthly read supply points	21.8965

Invoice	Charge Code
LDZ Capacity	CCA

	Pence per peak day kWh per day
Capacity charge	0.0023

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA

	Pence per peak day kWh per day
Charging function	$0.0500 \times \text{SOQ}^{-0.2100}$

North West

LDZ System Charges

LDZ System Capacity

Charge Code	Firm Capacity	Interruptible Capacity
ZCA	pence per peak day kWh per day	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.1423	0.0674
73,200 to 732,000 kWh per annum	0.1321	0.0626
732,000 kWh per annum and above	$0.6255 \times \text{SOQ}^{-0.1806}$	$0.2963 \times \text{SOQ}^{-0.1806}$
Subject to a minimum rate of	0.0141	0.0067

LDZ System Commodity

Charge Code	Commodity
ZCO	pence per kWh
Up to 73,200 kWh per annum	0.0208
73,200 to 732,000 kWh per annum	0.0192
732,000 kWh per annum and above	$0.1193 \times \text{SOQ}^{-0.2121}$
Subject to a minimum rate of	0.0018

LDZ System CSEP Charges

Invoice – ADC	CSEP Firm Capacity	CSEP Interruptible Capacity
	pence per peak day kWh per day	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1423	0.0674
73,200 to 732,000 kWh per annum	0.1321	0.0626
732,000 kWh per annum and above	$0.6618 \times \text{SOQ}^{-0.1939}$	$0.3135 \times \text{SOQ}^{-0.1939}$
Subject to a minimum rate of	0.0141	0.0067

	CSEP Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0208
73,200 to 732,000 kWh per annum	0.0192
732,000 kWh per annum and above	$0.1138 \times \text{SOQ}^{-0.2131}$
Subject to a minimum rate of	0.0018

North West

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0725

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	20.5627
Monthly read supply points	21.8948

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0023

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0499 \times \text{SOQ}^{-0.2100}$

West Midlands

LDZ System Charges

LDZ System Capacity

Charge Code	Firm Capacity	Interruptible Capacity
ZCA	pence per peak day kWh per day	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.1262	0.0598
73,200 to 732,000 kWh per annum	0.1170	0.0554
732,000 kWh per annum and above	$0.5548 \times \text{SOQ}^{-0.1806}$	$0.2628 \times \text{SOQ}^{-0.1806}$
Subject to a minimum rate of	0.0126	0.0060

LDZ System Commodity

Charge Code	Commodity
ZCO	pence per kWh
Up to 73,200 kWh per annum	0.0200
73,200 to 732,000 kWh per annum	0.0185
732,000 kWh per annum and above	$0.1551 \times \text{SOQ}^{-0.2121}$
Subject to a minimum rate of	0.0017

LDZ System CSEP Charges

Invoice – ADC	CSEP Firm Capacity	CSEP Interruptible Capacity
	pence per peak day kWh per day	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1262	0.0598
73,200 to 732,000 kWh per annum	0.1170	0.0554
732,000 kWh per annum and above	$0.5867 \times \text{SOQ}^{-0.1939}$	$0.2779 \times \text{SOQ}^{-0.1939}$
Subject to a minimum rate of	0.0126	0.0060

	CSEP Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0200
73,200 to 732,000 kWh per annum	0.0185
732,000 kWh per annum and above	$0.1098 \times \text{SOQ}^{-0.2131}$
Subject to a minimum rate of	0.0017

West Midlands

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0594

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	18.7671
Monthly read supply points	19.9828

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0021

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0455 \times \text{SOQ}^{-0.2100}$