

All Shippers & Interested Parties

31 January 2019

Dear Industry Participant

Notice of Revised Gas Transmission Transportation Charges to apply from 1 April 2019

Introduction

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 2019 and follows the 'indicative notice' published on 1 November 2018.

A copy of our document "Notice of Gas Transmission Transportation Charges effective from 1 April 2019", which contains all charges that will apply from 1 April 2019 is available on the National Grid website under 'Final Notices'. It should be read in conjunction with this letter.

www.nationalgridgas.com/charging/transmission-system-charges.

This letter contains a summary of the changes to the charges from 1 April 2019.

Basis of preparing 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.

NTS Exit Capacity charges are normally updated once a year from 1 October. The latest published indicative Exit Capacity charges for 2019/20 were published on 1 May 2018 and utilised for user commitment in the 2018 Exit Capacity Application Window. These can be found at the following link www.nationalgridgas.com/charging/transmission-system-charges under Final Notices. For the purpose of setting the TO Exit Commodity charge we have updated the 2019/20 Transportation Model to include revised supply and demands and target revenues for the 2019/20 Exit Capacity charges.

Please be aware that NG has submitted **Uniform Network Code (UNC) Modification 0678 'Amendments to Gas Transmission Charging Regime'**¹. There is a potential for the payable prices, associated with capacity allocated after 1 October 2019, to be impacted. This in turn may affect the commodity charges during the financial year 2019/20. Prices are currently calculated solely on the current methodology, in line with the UNC, and will continue to be so until more certainty is available on the potential changes.

Charging Base

We have used our Future Energy Scenarios (FES) 2018 for the charging base for 2019/20. Overall demand for gas is forecast to decrease driven mainly by a decrease in gas for Power Generation due to decarbonisation in that sector. Our forecast has reduced by 21 TWh compared to the forecast for 2018/19 used in the October 2018 final prices.

¹ <https://www.gasgovernance.co.uk/0678>

Adjustments have been made to take account of the Entry and Exit flows that attract the Optional Commodity ('shorthaul') tariff. Flows utilising shorthaul tariff decreases the volume that attract the standard commodity rates. Our forecast of the use of the shorthaul tariff has also decreased and the net effect has been to slightly decrease our forecast demand used to set the commodity charges by about 0.5%.

Transmission Owner (TO) Charges

TO Allowed Revenues

TO Maximum Allowed Revenue (TO MAR) which is shared 50:50 between Entry and Exit activities, has decreased from the 2018/19 level of £708m to a level of £704m, a decrease of £4m.

Following its annual iteration of the Price Control Financial Model (PCFM), the MOD term, and the Network Innovation Competition Fund (NICF) have been confirmed by Ofgem, and are -£151.5m and £13.8m, respectively.

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 will increase to 0.0458 p/kWh from its current rate of 0.0435 p/kWh and from an average rate for 2018/19 of 0.0435 p/kWh, representing an increase of 5%. This increase is primarily due to increase in the revenue (£17m) that we are seeking to recover from the TO Entry Commodity charge.

The increase in revenue to collect from this charge is principally caused by reduced income from capacity auctions (-£11m) and £10m share of the reduction in the Distribution Network (DN) Pensions Deficit income.

NTS TO Exit Commodity charge

The TO Exit Commodity charge will increase from 0.0217 p/kWh to 0.0236 p/kWh, an increase of 9%, and an increase by 11% on the 2018/19 average of 0.0212 p/kWh.

Similarly, for the TO Exit Commodity rate, the target revenue on this charge has increased by £16m mainly due to reduced income from long term exit capacity sales of £6m and the reduction in income of other charges ie the DN Pensions Deficit income.

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

Distribution Network (DN) Pension Deficit charge

With the creation of Cadent Gas, and the associated ring-fencing of its pension liabilities, there are some changes to the way the DN Pension Deficit is funded from 1 April 2017. Cadent Gas pay the future Pensions Deficit costs directly and not via the DN Pensions Deficit recharge. There is a two year period (2017/18 and 2018/19) where they continued to fund the legacy deficit via the Pensions Deficit charge. From 2019/20 the charge will no longer apply to Cadent Gas.

DN Pension Deficit costs are £23.2m in 2009/10 prices and including inflation equates to £31.5m for 2019/20. This is a reduction of £19m compared to last year.

The final monthly and annual DN Pension Deficit charges by Distribution Network for 2019/20 are shown in the table below.

DN Pensions Deficit Charges

Distribution Network	Monthly Charge (£)	Annual Charge (£m)
East of England	-	
London	-	
North West	-	
West Midlands		
North of England	618,905	7.43
Scotland	427,455	5.13
South of England	989,932	11.88
Wales and the West	592,783	7.11

Metering Charges

Meter maintenance charges will rise by 3.1%, the rate of inflation, as in previous years.

System Operator (SO) Charges

SO Allowed Revenues

The SO allowed revenue has increased by £64m from the 2018/19 level of £180m to £244m (35%).

The main reasons for this increase are:

As in the case of the TO MOD term, the SO MOD value (£39m) was confirmed by Ofgem in December 2018. The increase within SO MOD by £39m is related to investment in Data Centres and cyber security. We are investing in our Critical National Infrastructure, including Data Centres and cyber security, to protect the vital service of delivering gas (and electricity) in the UK, whilst the threat to doing so is substantially increasing.

A rise of £15m in shrinkage costs due to higher energy prices.

NTS SO Commodity Charges

The NTS SO Commodity charge, as applied to both Entry and Exit flows, is 0.0149 p/kWh compared to the current rate of 0.0092 p/kWh (62%) and from an average rate for 2018/19 of 0.0095 p/kWh (57%). This increase in rate is driven principally by the change in SO revenue to be collected.

Other SO Charges

The charge levied at the North Sea Midstream Partners (NSMP) sub-terminal at St. Fergus will increase from its current level of 0.0144 p/kWh to 0.0170 p/kWh, an increase of 18%.

The compression costs at St. Fergus are increasing by £1.6m due to forecast higher market energy costs. Compared to the high levels seen in recent years we are expecting a reduction in flows at this terminal which puts a further upward pressure on this charge.

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 www.nationalgridgas.com/charging/transmission-system-charges under Tools and Supporting Information.

Getting in touch

There will be an opportunity to discuss these changes at a subsequent NTS Charging Methodology Forum (NTSCMF), details of which can be found at <https://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, please let us know by contacting: box.transmissioncapacityandcharging@nationalgrid.com.

If you have any other questions about gas transportation charges or feedback about how we present and explain the charges in this document, please contact Karin Elmhirst (01926 655540) or Dave Bayliss (01926 656853) 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 <https://www.nationalgrid.com/uk>.

Our updated long term revenue forecasts are also available at <https://www.nationalgridgas.com/charging/transmission-system-charges>

Appendix 1

Allowed Revenues used for Charge Setting

	2018/19 (£m)	2019/20 (£m)	Change (£m)
TO Maximum Allowed Revenue	708	704	-4
SO Maximum Allowed Revenue	180	244	64
NTS TO Entry Commodity	271	288	17
NTS TO Exit Commodity	132	148	16
NTS SO Commodity (Entry & Exit)	119	186	67
St. Fergus Compression	17.7	19.3	1.6

Appendix 2

Summary of Commodity Charges

The table below summarises the final changes to the Commodity charges being made in April 2019. A comparison between the current and average Commodity rates during 2018/19 and the April 2019 Final is also provided.

Summary of Commodity Charges

Charge p/kWh	Current	Average 2018/19	April 2019 Final	Change from current	% change to current
NTS TO Entry Commodity	0.0435	0.0435	0.0458	0.0023	5%
NTS TO Exit Commodity	0.0217	0.0212	0.0236	0.0019	9%
NTS SO Commodity (Entry & Exit)	0.0092	0.0095	0.0149	0.0057	62%
St. Fergus Compression	0.0144	0.0135	0.0170	0.0026	18%