nationalgrid

1st November 2010

National Grid House
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National Gas Emergency Service - 0800 111 999* (24hrs)
*calls will be recorded and may be monitored

Indicative Gas Transportation Charges from 1 April 2011 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 April 2011 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 April is expected to be published by 1 February, 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 April 2011 are shown in Table 1. There is uncertainty around the level of change that will be necessary at April and the figures provided are the present central estimates.

Table 1. Average Indicative Transportation Price Change from 1st April 2011

	East of England	London	North West	West Midlands
Average Change	+7.9%	+17.0%	+4.0%	+12.4%

The CSEP Administration Charge is expected to reduce to 0.1020 p/day per supply point. Other administration charges and the Optional LDZ charge are expected to be unchanged.

The indicative changes to charge levels have been based on bringing charges into line with the forecast price control allowed revenue for the period April 2011 to March 2012.

3. Methodology Changes

There are no methodology changes due to be implemented at April 2011 and so the structure of charges will be unchanged then. The above indicative price changes are forecast to apply uniformly to all the Standard LDZ charge and Customer charge unit rates from April 2011.

In line with the first effective date of the new interruption contracts following implementation of UNC Modification 0090, transportation charge discounts and payments in respect of interruptible supply points will cease from the end of 30th September 2011, as set out in the DNPC02 consultation report. The forecast impact on revenue of this methodology change has been taken into account in determining the indicative transportation charges from 1st April 2011 and no further change to general transportation charge levels is anticipated to be implemented at 1st October 2011 to reflect this change.

4. Factors Underlying Indicative Changes to Transportation Charges

The table below provides an analysis of the factors underlying the indicative changes to transportation charges from April 2011.

Table 2. Analysis of Factors Underlying Indicative Charges for April 2011

	East of England	London	North West	West Midlands
Core Allowed Revenue at constant real prices	1.0%	1.4%	1.2%	0.8%
Forecast Inflation	4.5%	4.5%	4.5%	4.5%
Lower cost pass-through and incentive outcomes	-2.9%	-5.1%	-4.7%	-0.2%
Change in K brought forward from April 2010 position	0.3%	5.1%	-2.7%	-1.5%
Allowed Revenue Change: 2010/11 to 2011/12	**2.9%**	**5.9%**	**-1.7%**	**3.7%**
Impact of lower SOQs in 2011/12 relative to 2010/11	4.3%	4.6%	4.6%	5.0%
Existing charges too low relative to Allowed Revenue	0.7%	6.5%	1.1%	3.7%
Indicative change to Charges at April 2011	**7.9%**	**17.0%**	**4.0%**	**12.4%**

The change in the Core Allowed Revenue, at constant real price levels, reflects the regulatory allowances set for the current price control period. The pattern of changes varies year by year over the price control period and by network.

The Forecast Inflation is a forecast of the average change in RPI for July to December 2010.

The main element of the change in cost pass-through and incentive outcomes is a reduction in Formula Rates for each network.

The change in K brought forward reflects the change in the forecast under-recovery of collected revenue relative to Allowed Revenue at the end of March 2011, which will be carried forward to the Allowed Revenue for 2011/12, relative to the position for 2010/11.

The SOQ impact reflects the lower SOQs expected for 2011/12 and takes into account the forecast impact of the SOQ changes at October 2010 together with a further 4% assumed reduction in SOQs for each network at October 2011. Since capacity charges account for approximately 96.5% of distribution transportation revenue, the forecast reduction in the capacity base requires a reciprocal increase in unit transportation rates in order to maintain the same level of revenue.

In every network the existing transportation charges are currently below the existing maximum level determined by the regulatory price control and so need to be increased to bring them into alignment.

5. Uncertainties around Indicative Transportation Charges

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

Supply point capacity and supply point numbers impact on the majority of the transportation charges over the price control period. Supply point capacity has reduced on average in recent years and we expect this trend to continue. We have assumed a 4%

reduction in supply point capacity for each of the four networks from October 2011. We aim to update this assumption prior to determining the definitive April 2011 charges.

The level of the shrinkage allowance within the price control allowed revenue is dependent on the day-ahead wholesale gas price which is subject to considerable potential volatility. If the actual and revised forecast level of shrinkage is different from that currently forecast for the next five months, this will change the forecast over- or under-recovery for 2010/11 to be included in the 2011/12 allowed revenue. If the forecast level of shrinkage for 2011/12 at the time of setting the definitive April 2011 charges is different from that currently forecast this will change the forecast level of allowed revenue and hence the level of charges set.

The definitive mains and services replacement adjustment to allowed revenue for 2010/11 will not be known until July 2011. An updated forecast will be used to estimate any change in the over- or under-recovery position from 2010/11 to be included in the 2011/12 charges. This, together with any changes to the forecast mains and services replacement workload for 2011/12, will affect the estimated allowed price control revenue for 2011/12 and hence the change to charge levels required for each network.

A number of other factors, such as RPI and forecast incentive performance, could also lead to variations between the indicative and definitive charges but these are expected to be less significant.

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 represent approximately 17% of the gas supply price.

If you have any questions about this notice please contact me.

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