

Notice of Revised Gas Transportation Charges from 1 April 2017 for East of England, London, North West and West Midlands Gas Distribution Networks

1. Introduction

This notice confirms the levels of the gas transportation charges that will apply from 1st April 2017 for the East of England, London, North West and West Midlands distribution networks. Notice is provided two months ahead of implementation in line with the Gas Transporter Licence and Uniform Network Code obligations.

2. Gas Distribution Transportation Charges

The average changes to distribution transportation charge levels from 1 April 2017 are shown in Table 1 below. The individual elements of the transportation charges will change by varying levels around these average positions, in line with the application of the existing charging methodology. The new transportation charge rates are shown in full in Appendix B.

Table 1: Average change to Gas Distribution Transportation Charges from 1st April 2017

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
ADJUSTMENT FOR FORECAST 2016/17 OVER RECOVERY	(0.7%)	(0.7%)	(1.6%)	(0.6%)
YEAR ON YEAR CHANGE IN ALLOWED REVENUE	+3.7%	(3.2%)	(4.1%)	+1.4%
CHANGE IN SUPPLY POINT CAPACITY	(1.0%)	(0.8%)	(1.6%)	(0.4%)
AVERAGE PRICE CHANGE	+2.0%	(4.7%)	(7.2%)	+0.4%

The level of change shown differs slightly from the position reported in our [indicative price notification](#) published on 1st November 2016. The movements are summarised in the Table 2 below:

Table 2: Change to average price levels reported in October 2016 Indicative Notification

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
OCTOBER 2016 INDICATIVE AVERAGE PRICE CHANGE	+1.7%	(5.3%)	(7.7%)	(0.2%)
FINALISATION OF 2017 INFLATION ASSUMPTION	+0.8%	+0.8%	+0.8%	+0.8%
FINALISATION OF COST DEBT VIA ANNUAL ITERATION	(0.2%)	(0.2%)	(0.2%)	(0.2%)
OTHER FINAL REVENUE AND DEMAND UPDATES	(0.2%)	(0.0%)	(0.1%)	(0.0%)
JANUARY 2017 FINAL AVERAGE PRICE CHANGE	+2.0%	(4.7%)	(7.2%)	+0.4%

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These updates are process driven requirements; the Gas Transporter Licence requires determination of formula year inflation per the November edition of the HM Treasury report 'Forecasts for the UK Economy', and finalisation of annual cost of debt percentage rates occurs via Ofgem's Annual Iteration Process, which concluded at the end of November 2016. Other changes mainly relate to low level demand updates since publication of the indicative positions in October.

The principal factors that drive changes to Gas Distribution Transportation charges are:

- (i) The extent to which actual supply point capacity at 1 October 2016 differs to the assumptions made in setting prices for 2016/17;
- (ii) Year on year movement in allowed revenue as calculated in accordance with the Gas Transporter Licence; and
- (iii) Annual changes in the level of aggregate registered supply point capacity, upon which the bulk of our charges are based.

These influencing factors are explained in more detail in the following sections.

3. 2016/17 Forecast Revenue Recovery

Unit prices for the current charging year include assumptions regarding supply point capacity at commencement of the October 2016 gas year. To the extent that actual positions differ from these assumptions, this will drive an under recovery (if supply point capacity levels are lower than assumed) or over recovery (if supply point capacity levels are higher than assumed) in current year revenue collection. An initial step in determining prices for the next charging year is to rebase unit charges to offset this effect. Table 3 below demonstrates the impact to 2017/18 prices:

Table 3: Current Year Revenue Collection Forecast

NETWORK <i>Figures in £m nominal unless otherwise stated</i>	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
2016-17 ALLOWED REVENUE	597.4	433.5	453.7	321.8
2016-17 COLLECTED REVENUE FORECAST	601.6	436.3	461.0	323.9
FORECAST OVER RECOVERY	4.2	2.8	7.3	2.0
FORECAST OVER RECOVERY %	+0.7%	+0.7%	+1.6%	+0.6%

NB 2017/18 unit prices must be reduced by the extent of the forecast current year over recovery

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4. Year on Year Movement in Allowed Revenue

The key elements of movement in allowed transportation revenue from 2016/17 are:

- (i) Inflationary increases;
- (ii) Underlying movement in base revenue per RIIO GD-1 Final Proposals;
- (iii) The impact of Ofgem's direction via the 2016 Annual Iteration Process;
- (iv) 2 year lagged RPI "true-up" from 2015/16 (where actual RPI outturn was lower than the HM Treasury forecasts used for the purposes of price setting);
- (v) 2 year lagged adjustments from 2015/16 in respect of pass through costs, incentives, and over/under recovery in revenue collection.

A trace between Allowed Revenues for 2016/17 and 2017/18 is shown in Table 4 below:

Table 4: Year on Year Movement in Allowed Revenue

NETWORK <i>Figures in £m nominal unless otherwise stated</i>	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
2016-17 ALLOWED REVENUE	597.4	433.5	453.7	321.8
UPLIFT TO 2017/18 PRICES	18.3	13.3	13.8	9.9
CHANGE IN BASE REVENUE PER FINAL PROPOSALS	(1.5)	(6.2)	2.2	3.9
PRICE CONTROL FINAL MODEL ADJUSTMENT	1.7	(20.6)	(24.8)	(10.0)
LAGGED INFLATION TRUE UP FROM 2015/16	(4.9)	(4.0)	(3.5)	(2.6)
COST PASS THROUGH	(0.9)	0.2	(0.9)	(0.0)
NON TOTEX INCENTIVES	9.0	5.3	5.5	1.8
(OVER) / UNDER COLLECTION OF REVENUE B/F	0.4	(2.1)	(10.8)	1.7
2017-18 ALLOWED REVENUE	619.5	419.4	435.3	326.5
% CHANGE IN ALLOWED REVENUE	+3.7%	(3.2%)	(4.1%)	+1.4%

An analysis of 2017/18 Allowed Revenue broken down by component is included in Appendix A.

5. Change in Registered Supply Point Capacity

The final prices reflect the latest available information from Xoserve in respect of supply point capacity changes for the gas year commencing 1 October 2016. Traditionally, to establish unit prices for the next charging year, a projection for supply point capacity changes as at October 2017 would be required. However, the project to

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replace Xoserve's UK Link system (Project Nexus) is currently expected to go live in June 2017, which impacts the price setting process in this regard.

A key benefit of Project Nexus implementation to transportation charging is that it will utilise fixed peak day capacity positions (SOQs) for the entirety of a charging year, significantly reducing the risk of over or under recovery of revenue currently caused by step changes in demand at the commencement of each gas year (see Section 3). With the exception of the relatively low level of organic expansions and contractions in the chargeable base typically observed, we expect supply point capacity positions to be maintained at the October 2016 level for the entirety of the 2017/18 charging year. As per Table 1 above, the impact of movement in year on year average aggregate supply point demand levels to prices is as follows:

Table 5: Impact of Movement in Year on Year Average Aggregate Supply Point Demand Levels

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHANGE IN SUPPLY POINT CAPACITY	(1.0%)	(0.8%)	(1.6%)	(0.4%)

6. Charging Methodology

There are no charging methodology changes that impact on the structure of the charges from April 2017. However, under the existing charging methodology there is a requirement to target a pre-set split of revenue recovery between the LDZ System and LDZ Customer charges, and a 95:5 recovery split between LDZ System Capacity and Commodity charges.

Additionally, the Exit Capacity (ECN) charges are set to recover the sum of the following three elements:

- (i) The 2017-18 Licence allowance for NTS Exit capacity costs;
- (ii) ECN over/under recovery from 2015/16; and
- (iii) The Exit Capacity cost adjustment between actual and allowed costs for 2015/16.

The application of the charging methodology means that the changes to the individual elements of the transportation charges will vary from the aggregate level. Table 6 below shows average price changes by type:

Table 6: Price Change by Component

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ SYSTEM COMMODITY PRICE CHANGE	+18.2%	+8.8%	+11.7%	+11.5%
LDZ SYSTEM CAPACITY PRICE CHANGE	+2.1%	(5.4%)	(7.8%)	+0.1%
LDZ CUSTOMER PRICE CHANGE	+2.8%	(4.9%)	(8.4%)	+0.2%
LDZ AGGREGATE PRICE CHANGE	+2.8%	(4.8%)	(7.4%)	+0.5%
ECN PRICE CHANGE	(13.9%)	(3.7%)	(5.9%)	(0.7%)
AVERAGE TRANSPORTATION PRICE CHANGE	+2.0%	(4.7%)	(7.2%)	+0.4%

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Typically, the three components of the LDZ charges would broadly move to similar degrees. However, as part of a review of pricing models and processes ahead of Project Nexus implementation, the LDZ System Commodity elements for 2017/18 show one off increases to reflect a rebasing of assumed annual throughput levels, and to accommodate growth in embedded entry to Distribution Networks as more biomethane sites come online. It should be noted that as LDZ System Commodity charges amount to only 3% of total transportation revenue, the weighted impact to overall price change is relatively small (see Table 7 below). It is anticipated that this one off rebase will resolve under collection of commodity revenue observed in recent years, and therefore reduce downstream impacts to the determination of Allowed Revenue.

Table 7: Aggregate Price Change Weighted by Proportion of Total Transportation Revenue

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ SYSTEM COMMODITY PRICE CHANGE	+0.6%	+0.3%	+0.4%	+0.4%
LDZ SYSTEM CAPACITY PRICE CHANGE	+1.3%	(3.3%)	(5.0%)	+0.0%
LDZ CUSTOMER PRICE CHANGE	+0.8%	(1.5%)	(2.0%)	+0.1%
LDZ AGGREGATE PRICE CHANGE	+2.7%	(4.6%)	(6.7%)	+0.5%
ECN PRICE CHANGE	(0.5%)	(0.2%)	(0.5%)	(0.0%)
AVERAGE TRANSPORTATION PRICE CHANGE	+2.0%	(4.7%)	(7.2%)	+0.4%

Final Gas Transportation unit rates from 1 April 2017 are shown in full in Appendix B.

7. Impact of Changes

Table 8 shows the estimated impact of the changes to LDZ charges for typical loads of different sizes.

Table 8: Average LDZ Price Change for Loads of Varying Size

LDZ PRICE CHANGE BY CHARGING BAND	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
UP TO 73,200 KWH PER ANNUM	+2.7%	(4.8%)	(7.5%)	+0.4%
73,200 KWH - 732,000 KWH PER ANNUM	+2.8%	(4.7%)	(7.1%)	+0.5%
732,000 KWH PER ANNUM AND ABOVE	+2.9%	(4.7%)	(6.8%)	+0.7%
AVERAGE LDZ PRICE CHANGE	+2.8%	(4.8%)	(7.4%)	+0.5%

Note that for the ECN charge element, this does not vary by size of load, and is instead set as a flat charge by exit zone.

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If you have any questions or comments regarding this notice please contact a member of the Revenue & Pricing team at the address below.

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Appendix A: 2017/18 Maximum Allowed Revenue by Network

NETWORK <i>Figures in £m nominal unless otherwise stated</i>	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
OPENING BASE REVENUE	634.2	449.9	461.5	345.2
PRICE CONTROL FINANCIAL MODEL ITERATION ADJUSTMENT	(15.6)	(26.3)	(19.6)	(16.9)
RPI TRUE UP	(13.9)	(10.2)	(9.9)	(7.5)
BASE REVENUE	604.7	413.4	432.0	320.7
COST PASS THROUGH ADJ	6.4	3.4	3.9	2.9
NTS EXIT CAPACITY INCENTIVE ADJ	13.3	6.1	5.9	2.8
NTS EXIT CAPACITY COST ADJ	(7.6)	(2.0)	0.1	(1.1)
SHRINKAGE INCENTIVE ADJ	0.6	0.3	0.3	0.3
SHRINKAGE COST ADJ	(8.0)	(3.7)	(6.3)	(5.0)
ENVIRONMENTAL EMISSIONS INCENTIVE ADJ	3.1	1.7	1.6	1.8
BROAD MEASURE OF CUSTOMER SATISFACTION INCENTIVE ADJ	3.1	1.2	2.7	1.0
DISCRETIONARY REWARD SCHEME ADJ	-	-	-	-
NETWORK INNOVATION ALLOWANCE ADJ	3.7	2.6	2.7	2.0
(OVER) / UNDER RECOVERY B/F	0.1	(3.4)	(7.6)	1.0
MAXIMUM ALLOWED REVENUE	619.5	419.4	435.3	326.5
COLLECTABLE REVENUE FORECAST	619.1	419.1	434.9	326.3
OVER / (UNDER) RECOVERY FORECAST*	(0.4)	(0.3)	(0.4)	(0.2)
% OVER / UNDER RECOVERY	(0.1%)	(0.1%)	(0.1%)	(0.1%)

**Owing to the four decimal place restriction of unit prices, charge setting could result in slight over or under recovery of target allowed revenue. Special Condition 1B of the Gas Transporter Licence requires that the Licensee must use its best endeavours to ensure that collected revenue does not exceed maximum allowed revenue. A low level of under-recovery is therefore targeted when setting transportation charges*

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Appendix B: Transportation Unit Rates from 1 April 2017

LDZ System Capacity (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCA / 891	PENCE PER PEAK DAY KWH PER DAY			
UP TO 73,200 KWH PER ANNUM	0.1736	0.1802	0.1886	0.1824
73,200 KWH - 732,000 KWH PER ANNUM	0.1386	0.1606	0.1571	0.1643
732,000 KWH PER ANNUM AND ABOVE	0.8855 x SOQ ^ -0.2155	1.0266 x SOQ ^ -0.2133	1.2395 x SOQ ^ -0.2483	2.0139 x SOQ ^ -0.2817
SUBJECT TO A MINIMUM RATE OF	0.0169	0.0176	0.0174	0.0179
MINIMUM RATE APPLIES AT SOQ OF (KWH)	95,104,023	190,062,463	28,941,932	19,118,395

LDZ System Commodity (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCO / 893	PENCE PER KWH			
UP TO 73,200 KWH PER ANNUM	0.0287	0.0309	0.0309	0.0312
73,200 KWH - 732,000 KWH PER ANNUM	0.0228	0.0274	0.0259	0.0279
732,000 KWH PER ANNUM AND ABOVE	0.1815 x SOQ ^ -0.2376	0.1778 x SOQ ^ -0.2147	0.2245 x SOQ ^ -0.2586	0.3746 x SOQ ^ -0.2911
SUBJECT TO A MINIMUM RATE OF	0.0025	0.0025	0.0027	0.0027
MINIMUM RATE APPLIES AT SOQ OF (KWH)	67,955,535	422,621,238	26,547,517	22,855,827

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LDZ Customer Capacity

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CCA	PENCE PER PEAK DAY KWH PER DAY			
UP TO 73,200 KWH PER ANNUM	0.0973	0.1144	0.0882	0.0869
73,200 KWH - 732,000 KWH PER ANNUM	0.0032	0.0040	0.0027	0.0029
732,000 KWH PER ANNUM AND ABOVE	0.0689 x SOQ ^ -0.2100	0.0879 x SOQ ^ -0.2100	0.0608 x SOQ ^ -0.2100	0.0665 x SOQ ^ -0.2100

LDZ Customer Fixed

NETWORK		EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CFI		PENCE PER DAY			
73,200 TO 732,000 KWH PER ANNUM	NON MONTHLY READ SUPPLY POINTS	28.5219	36.0812	25.0287	27.5129
	MONTHLY READ SUPPLY POINTS	30.3695	38.4183	26.6502	29.2950

Optional LDZ Charge for all Networks

ALL NETWORKS	
CHARGE CODE: 881	PENCE PER PEAK DAY KWH PER DAY
OPTIONAL LDZ FUNCTION	$902 \times [(SOQ)^{-0.834}] \times D + 772 \times (SOQ)^{-0.717}$

Please note that the Optional LDZ Charge function is unchanged from 2016/17.

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ECN Charges by NTS Exit Zone (Direct Connects and CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ECN/C04	PENCE PER PEAK DAY KWH PER DAY			
EA1	0.0052			
EA2	0.0050			
EA3	0.0015			
EA4	0.0104			
EM1	0.0005			
EM2	0.0040			
EM3	0.0134			
EM4	0.0098			
NT1		0.0207		
NT2		0.0122		
NT3		0.0116		
NW1			0.0195	
NW2			0.0252	
WM1				0.0171
WM2				0.0148
WM3				0.0130

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DN Entry Commodity Charge / Credits for Distributed Gas

NETWORK	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH				
ADNAMS BREWERY SOUTHWOLD	CHARGE	0.2171			
BAY FARM	CHARGE	0.0018			
BECCLES, SOTTERLEY	CREDIT	-0.0617			
BONBY	CREDIT	-0.0014			
CHEAR FEN FARMS, CHITTERING	CREDIT	-0.0823			
DERBY	CREDIT	-0.0774			
FAIRFIELDS FARM, WORMINGFORD	CHARGE	0.0011			
GONERBY MOOR	CREDIT	-0.0774			
GRANGE FARM, SPRIDLINGTON	CREDIT	-0.0563			
HEMSWELL CLIFF	CREDIT	-0.0014			
HOLKHAM, NORFOLK	CHARGE	0.0026			
LANKETTS GROVE	CREDIT	-0.0017			
LINDHOLME, DONCASTER	CREDIT	-0.0563			
MANOR FARM, ALDERTON	CREDIT	-0.0752			
MEPAL	CREDIT	-0.0823			
METHERINGHAM MP / IP	CREDIT	-0.0606			
METHWOLD	CHARGE	0.0026			
NORTH MOOR FARM, CROWLE	CREDIT	-0.0541			
PICKENHAM AIRFIELD	CHARGE	0.0026			
RAYNHAM FARM	CHARGE	0.0062			
REDBOURNE ROAD, HIBALDSTOW	CREDIT	-0.0774			
STOKE BARDOLPH	CREDIT	-0.0768			

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NETWORK	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: LEC	PENCE PER KWH				
THE OAKS	CHARGE	0.0026			
WARDEN TREE LANE	CREDIT	-0.0023			
WELBECK COLLIERY, MEDEN VALE	CREDIT	-0.0789			
WESTRY	CREDIT	-0.0006			
WORMSLADE FARM	CREDIT	-0.0789			
DAGENHAM	CREDIT		-0.0596		
BREDBURY PARK, STOCKPORT	CHARGE			0.0095	
DAVYHULME, URMSTON	CREDIT			-0.0649	
ELLEMERE PORT	CREDIT			-0.0161	
GRANOX, WIDNES	CREDIT			-0.0740	
ALSCOT	CREDIT				-0.0729
GRINDLEY HOUSE FARM	CREDIT				-0.0671
HAMPTON BISHOP	CREDIT				-0.0086
HIGHWOOD FARM, BRINKLOW	CREDIT				-0.0021
MINWORTH SEWAGE WORKS	CREDIT				-0.0078
ROUNDHILL	CREDIT				-0.0786
RUGELEY	CREDIT				-0.0042
STRONGFORD	CREDIT				-0.0765

The table above reflects sites currently flowing gas or those with accepted connection offers currently expected to commence operation within the 2017/18 charging year. Should any additional new sites require a DN Entry Commodity rate, these will be published via supplemental price notifications as required.

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Other Charges for all Networks

CSEP ADMINISTRATION CHARGE	
CHARGE PER SUPPLY POINT	0.0755 PENCE PER DAY

	INVOICE	CHARGE CODE
DM CSEP	ADU	883
NDM CSEP	ADC	894

Please note that CSEP administration charge will cease to apply upon implementation of Xoserve's UK Link replacement (Project Nexus) currently expected to be June 2017.

Shared Supply Meter Point Allocation Arrangements

AGENT SERVICE: ADU 883	TELEMETERED	NON TELEMETERED
SET-UP CHARGE	£107.00	£183.00
SHIPPER TO SHIPPER TRANSFER CHARGE	£126.00	£210.00
DAILY CHARGE	£2.55	£2.96

TRANSPORTER SERVICE: ADU 883	TELEMETERED	NON-TELEMETERED
SET-UP CHARGE	£107.00	£202.00
SHIPPER TO SHIPPER TRANSFER CHARGE	£126.00	£210.00
DAILY CHARGE	£2.55	£3.05

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