

Indicative LDZ Gas Transportation Charges from 1 October 2006 for East of England, London, North West and West Midlands Distribution Networks

1. Introduction

This notice provides indicative levels of the LDZ gas transportation charges that will apply from 1 October 2006 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 definitive notice of new 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 level of LDZ transportation charges from 1 October 2006 is shown in Table 1 below.

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

No change to the structure of the charges is proposed. The percentage change for each network would apply uniformly to the standard LDZ system capacity and commodity charges and customer charges. 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 CSEP administration charge prior to October.

Table 1. Indicative Changes in LDZ Transportation Charges from 1 October 2006

Distribution Network:	East of England	London	North West	West Midlands
Indicative Change from October 2006	+10.6%	-14.4%	+15.7%	+11.8%

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 2006
Price Change at October 2005 12.0% 4.7% -5.9% 4.2%

	East	London	NW	WM	Average
Base level of change	-3.9%	-11.9%	8.1%	-4.2%	-2.7%
Rates increase for 2006/7	3.7%	3.2%	3.2%	3.1%	3.4%
Impact of lower demand due to high gas prices	2.7%	3.2%	1.2%	2.3%	2.4%
Mains replacement and exit incentive impacts	2.8%	-0.1%	2.5%	9.4%	3.3%
K b/f from 2005/6	5.3%	-8.8%	0.7%	1.2%	0.4%
Forecast Change for October 2006	10.6%	-14.4%	15.7%	11.8%	6.8%

3.1. Base Change

The base change represents the level of change to the charges required if the other factors (rates payable, level of demand, mains replacement incentive position) were unchanged from their levels in 2005/6. A base change is required for each network because the mid year timing of the change means that charges have to be above or below the underlying level required. This then has to be adjusted for in the following year, which results in fluctuation base changes year on year. For London network there is a particularly large forecast reduction due to the existing level of charges significantly over-recovering.

3.2. Review of Gas Distribution Cumulo Rates

Cumulo rates are a tax levied on National Grid (and other utilities) by central government. A review of the level of such rates in respect of the gas transportation businesses was undertaken by central government in 2004. The level of these rates is largely outside of the transporter's control and as such they are allowed as a cost pass-through item within the price control allowed revenue. The review resulted in a increase in the level of cumulo rates payable in respect of all the gas distribution networks which is being phased in over three years, with this year being the second of the three years.

3.3. Demand Reduction Forecast for 2006/7

As a result of high gas prices, we have seen a reduction in gas demand of around 3% for the last year compared to the May 2005 forecasts for the period, which were used to set the level of October 2005 charges. We expect demand levels for 2006/7 to be even lower than the actual levels experienced in 2005/6 - this is due to the full impact of the increased level of gas prices not yet having been experienced. Since regulatory allowed revenue is only partially (35%) linked to the level of throughput, the reduction in throughput is expected to result in collected income (at constant prices) reducing to a greater extent than regulatory allowed revenue. To compensate for this, transportation charges need to be increased by around 2.4%

on average, varying slightly by network, to collect the regulatory allowed revenue. New demand forecasts for 2006/7 are expected to be available in May which will be used to determine the definitive charges for October.

3.4. Mains Replacement Adjustment Position

The distribution price controls are based upon an assumed level of cost each year for replacing distribution mains in each network. Where the gas transporter carries out a different level of mains 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 forecast of the mains replacement adjustment position for each network for 2006/7 will be updated prior to publishing the definitive charges for October.

3.5. K brought forward

Due, primarily, to the outturn mains replacement adjustment position for 2005/6 for East of England and London networks varying from the forecast used at the time of setting the current charge levels, we have under- and over-recovered respectively for these networks. Where we have over-recovered this reduces the regulatory allowed revenue for 2006/7, so contributing to lower charges from October 2006, and vice-versa.

4. Uncertainties around Indicative Transportation Charges

The main causes of potential variation between the definitive price changes and the indicative figures shown are:

- The expected changes to charge levels depend upon forecasts of the throughput volumes, load factors and customer numbers by sector for the price control year. The main update of these forecasts is in May each year and so can be taken into account in determining the definitive level of charges to apply from October. There is large uncertainty around these forecasts this year due to uncertainties around the level of future gas prices and the timing and degree of impact this has on demand levels;
- 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 adjustment position for 2005/6 will not be known until July. This, together with the mains replacement performance over the next three months and any changes to the forecast mains replacement incentive position for the price control year, will affect the estimated price control revenue for 2006/7 and hence the change to charge levels required for each network.

5. Impact on Gas Supply Prices

The extent to which any transportation charge increase or decrease 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 17% of the gas supply price. For example, a 6.8% increase in distribution transportation costs is equivalent to a 1.2% increase in the annual gas supply cost for a typical domestic consumer, equivalent to an additional £6 per annum approximately.