

Updated Indicative Gas Transportation Charges from 1 April 2013 for East of England, London, North West and West Midlands Distribution Networks

This updated notice corrects an error in the initial notice in the level of revenue, and thus transportation charges, consistent with Ofgem's Initial Proposals. There are no other changes.

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2013 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. Basis of Indicative Distribution Transportation Charges

The price control arrangements for the year 2013/14 are not yet known and so indicative charges have been produced on two bases: National Grid Gas Distribution's (NGGD) Business Plan of April 2012 and Ofgem's Initial Proposals published in July 2012.

In addition, there is uncertainty around the detailed Licence conditions which will impact on the derivation of the maximum allowed revenue for 2013/14 and so assumptions have been made for the purposes of determining the indicative charges.

Further, there is uncertainty around the level of NTS Exit Capacity costs which will be passed through and which determines the LDZ ECN transportation charges. This uncertainty relates primarily to the level of National Grid Gas Transmission's (NGGT) exit capacity charges, to the timing of changes to those charges, and to the detailed distribution Licence conditions effecting when and how the costs are passed through to the distribution charges. Given this uncertainty, indicative LDZ ECN transportation charges have been produced on two scenarios: one reflecting NTS exit charges in line with the NGGT March RIIO-T1 submission with October changes, the second reflecting NTS exit charges in line with Ofgem's Initial Proposals for RIIO-T1 with October changes. In each case it is assumed that the level of NTS exit capacity cost would be passed through within 2013/14. Note that these latest forecasts of exit capacity charges and costs update those within NGGD's April 2012 Business Plan.

We have produced indicative charges on these bases to help inform shippers, suppliers and other parties of the potential level of transportation charges from April 2013. The use of these bases, and of assumptions around the detailed Licence conditions, for this purpose should not be taken to imply that NGGD considers they are appropriate for the determination of the forthcoming price control.

3. Assumptions made around detailed Licence Conditions

Ofgem published its second informal licence drafting consultation on 30th October. NGGD has not yet had time to assess the proposed licence drafting. However, for the purposes of determining indicative charges the following assumptions have been made, which are thought to be consistent with the current drafting.

Inflation

The draft licence conditions apply an inflation adjustment to convert allowances set at 2009/10 price levels to outturn price levels. Under this drafting a forecast of inflation for the relevant year, and preceding year, would be used to determine the outturn maximum allowed revenue, with revenue true-up two years later for the actual inflation for the years. The proposed mechanism would use forecasts published in mid-November 2012 of inflation for calendar years 2012, 2013 and 2014 to determine the inflation adjustment for 2013/14.

Since the mid-November forecasts which would be used are not yet available, we have used forecasts as set out below to determine a forecast inflation adjustment from 2009/10 price levels to 2013/14.

Inflation Assumptions Used

Calendar Year Inflation Forecast			
2012	2013	2014	
3.1%	2.6%	2.6%	
Derived Formula Year Inflation Forecast			
	2012/13	2013/14	
	2.975%	2.600%	
Derivation of Inflation Factor from 2009/10 Price Level			
9/10 to 11/12	12/13	13/14	9/10 to 13/14
Actual	Forecast	Forecast	Overall
1.100	1.030	1.026	1.162

Under-recovery from 2012/13

Under the licence drafting under- or over-recovery from 2012/13 would be recovered with a two year lag, in 2014/15. For the purposes of determining indicative charges we have assumed no adjustment in 2013/14 for under- or over-recovery in 2012/13.

Incentive Adjustments

Under the licence drafting incentive adjustments will be recoverable with a two year lag. For the purposes of determining indicative charges we have assumed no incentive adjustments in 2013/14 other than for the Discretionary Reward Scheme (DRS). The DRS currently applies with a two year lag and so it has been assumed that the DRS awarded in respect of 2011/12 (£0.9m for NGGD) will be recoverable in 2013/14.

4. Methodology Changes

The only charging methodology change which will impact on the structure of the charges is the introduction of DN Entry Charges for Distributed Gas, resulting from UNC Modification 0391, from 1 April 2013. The indicative level of entry charges for Distributed Gas entry points which are expected to be operational in 2013/14 is shown in section 7. The expected level of transportation revenue from these indicative negative entry charges is very small and so has negligible impact on the level of the other transportation charges.

Under the existing charging methodology there is a requirement to target a particular split of revenue from the LDZ System and Customer charges, and a 95:5 split of revenue from the LDZ System capacity and commodity charges. The indicative level of change to the LDZ System capacity and commodity charges and the Customer charges is shown in tables 1A and 1B for each basis. This level of change would be applied uniformly to each of the charge rates for each charge type.

5. Indicative Changes to Transportation Charges

NGGD Business Plan Basis

Table 1A shows the overall indicative average change to transportation charges plus the indicative changes to the individual charge types.

Table 1A. Indicative Average Change to Charges from April 2013 - NGGD Business Plan Basis

	East of England	London	North West	West Midlands
Target Level of Revenue (Outturn £m) *	565.8	372.2	393.7	291.3
Average Change	9.2%	3.5%	8.2%	2.5%
LDZ System Capacity charges	9.0%	3.4%	8.3%	2.4%
LDZ System Commodity charges	4.6%	-0.4%	1.3%	-1.8%
Customer charges	10.2%	4.1%	9.1%	3.1%

* Excludes pass-through of NTS Exit Capacity Costs which is recovered through DN ECN transportation charges

Table 2A shows the factors underlying the indicative change to charges. We have assumed that the 2013 AQ Review will result in derived Supply Point capacity levels falling by 3% from October 2013. This, in combination with the higher than expected capacity level reductions at October 2012, requires capacity charge rates to be increased to maintain a set revenue level.

Table 2A. Factors Underlying Indicative Average Increase to Charges - NGGD Business Plan Basis

Factor	East of England	London	North West	West Midlands
Change to Outturn Allowed Revenue from 12/13	5.1%	-0.6%	2.3%	-0.5%
Existing charges below 12/13 Allowed Revenue	0.4%	0.7%	2.1%	-0.6%
Increase to offset capacity reductions *	3.5%	3.4%	3.6%	3.7%
Overall Average Change	9.2%	3.5%	8.2%	2.5%

Note that factors do not add up since they apply multiplicatively to determine overall change

* This reflects an average of October 2012 actual capacity reduction and assumed 3% further capacity reduction at October 2013

Ofgem Initial Proposals Basis

Table 1B shows the overall indicative average change to transportation charges plus the indicative changes to the individual charge types.

Table 1B. Indicative Average Change to Charges from April 2013 - Ofgem Initial Proposals Basis

	East of England	London	North West	West Midlands
Target Level of Revenue (Outturn £m) *	553.3	360.4	386.2	296.4
Average Change	6.8%	0.2%	6.1%	4.3%
LDZ System Capacity charges	6.6%	0.1%	6.2%	4.2%
LDZ System Commodity charges	2.3%	-3.5%	-0.8%	0.0%
Customer charges	7.8%	0.7%	6.9%	4.9%

* Excludes pass-through of NTS Exit Capacity Costs which is recovered through DN ECN transportation charges

Table 2B shows the factors underlying the indicative change to charges. The same capacity assumptions apply.

Table 2B. Factors Underlying Indicative Average Increase to Charges - Ofgem Initial Proposals Basis

Factor	East of England	London	North West	West Midlands
Change to Outturn Allowed Revenue from 12/13	2.8%	-3.8%	0.3%	1.2%
Existing charges below 12/13 Allowed Revenue	0.4%	0.7%	2.1%	-0.6%
Increase to offset capacity reductions *	3.5%	3.4%	3.6%	3.7%
Overall Average Change	6.8%	0.2%	6.1%	4.3%

Note that factors do not add up since they apply multiplicatively to determine overall change

* This reflects an average of October 2012 actual capacity reduction and assumed 3% further capacity reduction at October 2013

For both bases, the CSEP Administration Charge is expected to reduce to 0.0986 p/day per supply point. Other administration charges and the Optional LDZ charge are expected to be unchanged.

6. Indicative LDZ ECN Charges

As noted previously, there is uncertainty around the level of NTS exit charges and around how and when these will be passed through to the LDZ ECN charges. Given this, indicative LDZ ECN transportation charges have been produced on two scenarios: one reflecting NTS exit charges in line with the NGGT March RIIO-T1 submission with October changes, the second reflecting NTS exit charges in line with Ofgem's Initial Proposals for RIIO-T1 with October changes. The assumed NTS exit charges are as published in NGGT's current charging discussion document, NTS GCD10.

There are further potential options for the balance of the NTS exit charges for 2013/14 depending on whether a one-off change to the NTS charges is made at April 2013; these options are set out in the NGGT charging discussion document, NTS GCD10. It should be noted that these scenarios are separate from the two bases used for the other indicative charges. The assumed NTS exit capacity bookings are identical for the two scenarios.

Scenario 1: NTS exit charges based on NGGT submission with October changes**Table 3A Indicative LDZ ECN Charges - Scenario 1**

Scenario 1: Per NTS RIIO-T1 Submission Mar 2012 with no change to prices in Apr-13	LDZ ECN Rate (p/pdkWh)
EA1	0.0101
EA2	0.0137
EA3	0.0056
EA4	0.0182
EM1	0.0044
EM2	0.0103
EM3	0.0214
EM4	0.0296
Average, East of England DN	0.0152
NT1	0.0143
NT2	0.0090
NT3	0.0312
Average, London DN	0.0177
NW1	0.0177
NW2	0.0409
Average, North West DN	0.0254
WM1	0.0237
WM2	0.0183
WM3	0.0209
Average, West Midlands DN	0.0203

Scenario 2: NTS exit charges based on Ofgem IP for RIIO-T1 with October changes**Table 3B Indicative LDZ ECN Charges - Scenario 2**

Scenario 2: Per Ofgem RIIO-T1 Initial Proposals with no change to prices in Apr-13	LDZ ECN Rate (p/pdkWh)
EA1	0.0058
EA2	0.0078
EA3	0.0016
EA4	0.0132
EM1	0.0007
EM2	0.0054
EM3	0.0166
EM4	0.0210
Average, East of England DN	0.0105
NT1	0.0117
NT2	0.0066
NT3	0.0227
Average, London DN	0.0130
NW1	0.0140
NW2	0.0339
Average, North West DN	0.0206
WM1	0.0193
WM2	0.0144
WM3	0.0151
Average, West Midlands DN	0.0159

7. Indicative DN Entry Commodity Charges for Distributed Gas

Following approval of UNC Modification 0391, a DN entry commodity charge will be introduced from 1st April 2013 for distributed gas entry flows. The entry commodity charge rates will be determined by the sum of three factors for each site:

- the average ECN charge for the relevant Distribution Network (negative element)
- a credit relating to the lower system tier usage, dependent on tier of connection (negative element)
- the operating and maintenance costs for equipment relating to the entry point which is owned and operated by the DN (positive element).

Depending upon the relative magnitude of the elements the overall charge may be either positive (an entry charge) or negative (an entry credit).

The uncertainty around the other distribution transportation charges means that there is uncertainty around the level of two elements (ECN credit, system usage credit) feeding into the entry charge. In addition the other element currently reflects an initial estimate of the operating and maintenance costs and expected throughput for each site, which is expected to be refined prior to April 2013.

Table 4 shows a range for the indicative charge reflecting only the range in the two transportation charge elements on the different bases and scenarios used. Given the current uncertainty in all three of the elements it is possible that the eventual definitive charge will be outside of the range shown here.

The forecast level of transportation revenue (positive or negative) relating to distributed gas entry flows in 2013/14 is very small and so has negligible impact on the level of the other transportation charges.

Table 4. Indicative Distributed Gas Entry Charges

Distributed Gas Entry Point	Distribution Network	Entry Commodity Charge		Charge/Credit
		Min p/kWh	Max p/kWh	
Southwold, Adnams Brewery	East of England	0.1979	0.2036	Charge
Bredbury Park, Stockport	North West	0.0854	0.0911	Charge
Blackmore Park, Malvern	West Midlands	-0.0410	-0.0378	Credit

8. 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% to 20% of the gas supply price.

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

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