

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

### 1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2017 for the East of England, London, North West and West Midlands gas distribution networks in line with the Gas Transporter Licence Standard Special Condition A4 requirement to provide 150 days' notice of such proposals. The notice of the definitive distribution transportation charges from 1 April 2017 is expected to be published by 1<sup>st</sup> February 2017, in line with the two months' notice requirement within each Network Code.

### 2. Indicative Gas Distribution Transportation Charges

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

**Table 1: Indicative average change to Gas Distribution Transportation Charges from 1<sup>st</sup> April 2017**

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
ADJUSTMENT FOR FORECAST 2016/17 OVER RECOVERY	(0.5%)	(0.7%)	(1.6%)	(0.5%)
YEAR ON YEAR CHANGE IN ALLOWED REVENUE	+3.0%	(3.8%)	(4.7%)	+0.7%
CHANGE IN SUPPLY POINT CAPACITY	(0.8%)	(0.8%)	(1.4%)	(0.4%)
<b>AVERAGE PRICE CHANGE</b>	<b>+1.7%</b>	<b>(5.3%)</b>	<b>(7.7%)</b>	<b>(0.2%)</b>

The level of change shown differs from the position reported in our quarterly revenue report (MOD0186) published in early September 2016. The movements are summarised in the Table 2 below:

**Table 2: Change to average price levels reported in September 2016 MOD0186 Revenue Report**

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>SEPTEMBER 2016 MOD0186 PRICE CHANGE</b>	<b>+1.9%</b>	<b>(4.8%)</b>	<b>(7.1%)</b>	<b>+0.5%</b>
ALLOWED REVENUE UPDATES	(0.3%)	(0.3%)	(0.3%)	(0.4%)
SUPPLY POINT CAPACITY UPDATES	+0.0%	(0.2%)	(0.2%)	(0.2%)
<b>INDICATIVE AVERAGE PRICE CHANGE OCTOBER 2016</b>	<b>+1.7%</b>	<b>(5.3%)</b>	<b>(7.7%)</b>	<b>(0.2%)</b>

Securing our energy supply for future generations.

Issued 1 November 2016

The change in allowed revenue primarily relates to reductions in allowances following Ofgem's decision on their review of gas transporter agency (Xoserve) costs in September 2016. Estimates for this had been included as potential variances in the published MOD0186 reports prior to this.

Finalised supply point capacity positions for the gas year commencing 1 October 2016 became available following the MOD0186 report publication, which resulted in low level changes to the previously reported price changes.

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 indicative 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
<b>2016-17 ALLOWED REVENUE</b>	<b>597.8</b>	<b>433.1</b>	<b>453.7</b>	<b>321.9</b>
<b>2016-17 COLLECTED REVENUE FORECAST</b>	<b>600.9</b>	<b>436.3</b>	<b>461.1</b>	<b>323.6</b>
FORECAST OVER RECOVERY	3.1	3.1	7.4	1.7
FORECAST OVER RECOVERY %	+0.5%	+0.7%	+1.6%	+0.5%

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

**Securing our energy supply for future generations.**

## 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) Forecast 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
<b>2016-17 ALLOWED REVENUE</b>	<b>597.8</b>	<b>433.1</b>	<b>453.7</b>	<b>321.9</b>
UPLIFT TO 2017/18 PRICES	13.6	9.9	10.2	7.3
CHANGE IN BASE REVENUE PER FINAL PROPOSALS	(1.5)	(6.2)	2.1	3.9
PRICE CONTROL FINAL MODEL ADJUSTMENT	2.6	(19.9)	(24.1)	(9.7)
LAGGED INFLATION TRUE UP FROM 2015/16	(4.8)	(4.0)	(3.4)	(2.6)
COST PASS THROUGH	(0.9)	0.2	(0.8)	(0.0)
NON TOTEX INCENTIVES	8.6	5.6	5.5	1.8
(OVER) / UNDER COLLECTION OF REVENUE B/F	0.4	(2.1)	(10.8)	1.7
<b>2017-18 ALLOWED REVENUE</b>	<b>615.8</b>	<b>416.7</b>	<b>432.4</b>	<b>324.3</b>
<b>% CHANGE IN ALLOWED REVENUE</b>	<b>+3.0%</b>	<b>(3.8%)</b>	<b>(4.7%)</b>	<b>+0.7%</b>

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

## 5. Change in Registered Supply Point Capacity

The indicative 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 indicative unit prices for the next

**Securing our energy supply for future generations.**

charging year, a projection for supply point capacity changes as at October 2017 would be required. However, the project to replace Xoserve's UK Link system (Project Nexus) is currently expected to go live in June 2017. 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 indicative 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	(0.8%)	(0.8%)	(1.4%)	(0.4%)

## 6. Charging Methodology

There are no charging methodology changes that impact on the structure of the charges from April 2016. 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 indicative changes to the individual elements of the transportation charges will vary from the average level. Table 6 below shows average price changes by type:

**Table 6: Indicative Price Change by Component**

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ SYSTEM COMMODITY PRICE CHANGE	+18.2%	+7.1%	+10.2%	+10.8%
LDZ SYSTEM CAPACITY PRICE CHANGE	+1.8%	(5.9%)	(8.2%)	(0.4%)
LDZ CUSTOMER PRICE CHANGE	+2.2%	(5.6%)	(8.9%)	(0.5%)
<b>LDZ AGGREGATE PRICE CHANGE</b>	<b>+2.4%</b>	<b>(5.4%)</b>	<b>(7.8%)</b>	<b>(0.1%)</b>
ECN PRICE CHANGE	(14.3%)	(4.6%)	(6.3%)	(1.4%)
<b>AVERAGE TRANSPORTATION PRICE CHANGE</b>	<b>+1.7%</b>	<b>(5.3%)</b>	<b>(7.7%)</b>	<b>(0.2%)</b>

## Securing our energy supply for future generations.

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 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 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: Weighted Contribution to Aggregate Indicative Price Change**

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
LDZ SYSTEM COMMODITY PRICE CHANGE	+0.6%	+0.2%	+0.3%	+0.4%
LDZ SYSTEM CAPACITY PRICE CHANGE	+1.1%	(3.6%)	(5.2%)	(0.3%)
LDZ CUSTOMER PRICE CHANGE	+0.6%	(1.7%)	(2.1%)	(0.1%)
<b>LDZ AGGREGATE PRICE CHANGE</b>	<b>+2.3%</b>	<b>(5.1%)</b>	<b>(7.1%)</b>	<b>(0.1%)</b>
ECN PRICE CHANGE	(0.5%)	(0.2%)	(0.6%)	(0.1%)
<b>AVERAGE TRANSPORTATION PRICE CHANGE</b>	<b>+1.7%</b>	<b>(5.3%)</b>	<b>(7.7%)</b>	<b>(0.2%)</b>

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

## 7. Uncertainties Ahead of Definitive Charge Setting

There are still some uncertainties which will impact on the determination of the definitive transportation charges for application from 1 April 2017, which will be published on or before 1 February 2017. The key uncertainties are:

- (i) Estimation of the demand portfolio for 2017/18  
The definitive impact of the supply point capacity reductions from 1 October 2016 on income levels will not be known until all the October invoices are issued. These will give a better picture of the level of income which is being obtained with the existing charges from October onwards. In addition there are potential changes to the customer base, in terms of new supply points, existing supply points ceasing or reducing their gas usage, and potential changes to the peak capacity requirements for larger, daily-metered, loads which need to be taken into account;
- (ii) Inflation  
The indicative charges have been based on forecast inflation of 2.3% for 2017/18 per the August 2016 version of the HM Treasury document "Forecasts for the UK Economy". The definitive forecast inflation factor underpinning the maximum allowed revenue for all Distribution Networks will be known once the November 2016 version of the HM Treasury document has been published;

## Securing our energy supply for future generations.

Issued 1 November 2016

(iii) Price Control Financial Model (PCFM) impact on allowed revenue for 2017/18

As part of the price control Annual Iteration Process (AIP), the PCFM is run each November by Ofgem and the outcome impacts on the maximum allowed revenue for the following Formula Year. The operation of the PCFM this November is expected to reflect changes in the allowance for the cost of debt, Totex Incentive Mechanism outputs, and the reductions to allowances for gas transporter agency costs referred to in Section 2. The indicative charges have been based on forecast impacts of these PCFM adjustments from advanced stage dry runs of the AIP. However, the definitive adjustment to 2017/18 allowed revenue will be set out in Ofgem's determination on the outcome of the 2016 Annual Iteration Process at the end of November. This will be taken into account in setting the definitive transportation charges for 1 April 2017.

If you have any questions or comments regarding this notice please contact me at the address below.

Craig Neilson  
Stakeholder Implementation Manager (Pricing & Shrinkage)  
National Grid Gas Distribution Limited  
Hinckley Operational Centre  
Brick Kiln Street  
Hinckley, LE10 0NA  
Email: [craig.neilson@nationalgrid.com](mailto:craig.neilson@nationalgrid.com)

**Securing our energy supply for future generations.**



## 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	629.3	446.4	457.9	342.5
PRICE CONTROL FINANCIAL MODEL ITERATION ADJUSTMENT	(14.5)	(25.6)	(18.9)	(16.5)
RPI TRUE UP	(13.8)	(10.1)	(9.9)	(7.5)
<b>BASE REVENUE</b>	<b>601.0</b>	<b>410.7</b>	<b>429.1</b>	<b>318.5</b>
COST PASS THROUGH ADJ	6.3	3.3	3.9	2.9
NTS EXIT CAPACITY INCENTIVE ADJ	13.2	6.0	5.8	2.8
NTS EXIT CAPACITY COST ADJ	(7.5)	(2.0)	0.1	(1.1)
SHRINKAGE INCENTIVE ADJ	0.6	0.3	0.3	0.3
SHRINKAGE COST ADJ	(7.9)	(3.7)	(6.2)	(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	3.8	2.6	2.7	2.0
(OVER) / UNDER RECOVERY B/F	0.1	(3.4)	(7.6)	1.0
<b>MAXIMUM ALLOWED REVENUE</b>	<b>615.8</b>	<b>416.7</b>	<b>432.4</b>	<b>324.3</b>
<b>COLLECTABLE REVENUE FORECAST</b>	<b>615.7</b>	<b>416.5</b>	<b>432.3</b>	<b>324.1</b>
OVER / (UNDER) RECOVERY FORECAST*	(0.1)	(0.2)	(0.1)	(0.1)
% OVER / UNDER RECOVERY	(0.0%)	(0.0%)	(0.0%)	(0.0%)

*\*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*

**Securing our energy supply for future generations.**



## Appendix B: Indicative Transportation Unit Rates from 1 April 2017

### LDZ System Capacity (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: ZCA / 891</b>	<b>PENCE PER PEAK DAY KWH PER DAY</b>			
UP TO 73,200 KWH PER ANNUM	0.1731	0.1792	0.1878	0.1815
73,200 KWH - 732,000 KWH PER ANNUM	0.1382	0.1598	0.1564	0.1635
732,000 KWH PER ANNUM AND ABOVE	0.8830 x SOQ ^ -0.2155	1.0210 x SOQ ^ -0.2133	1.2342 x SOQ ^ -0.2483	2.0043 x SOQ ^ -0.2817
SUBJECT TO A MINIMUM RATE OF	0.0169	0.0175	0.0174	0.0178
<b>MINIMUM RATE APPLIES AT SOQ OF (KWH)</b>	<b>93,864,453</b>	<b>190,265,901</b>	<b>28,446,746</b>	<b>19,174,400</b>

### LDZ System Commodity (Direct Connects & CSEPs)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: ZCO / 893</b>	<b>PENCE PER PEAK DAY KWH PER DAY</b>			
UP TO 73,200 KWH PER ANNUM	0.0287	0.0304	0.0305	0.0310
73,200 KWH - 732,000 KWH PER ANNUM	0.0228	0.0270	0.0256	0.0277
732,000 KWH PER ANNUM AND ABOVE	0.1816 x SOQ ^ -0.2376	0.1750 x SOQ ^ -0.2147	0.2216 x SOQ ^ -0.2586	0.3724 x SOQ ^ -0.2911
SUBJECT TO A MINIMUM RATE OF	0.0025	0.0025	0.0026	0.0027
<b>MINIMUM RATE APPLIES AT SOQ OF (KWH)</b>	<b>68,113,254</b>	<b>392,502,798</b>	<b>29,212,587</b>	<b>22,398,000</b>

Securing our energy supply for future generations.



## LDZ Customer Capacity

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: CCA</b>	<b>PENCE PER PEAK DAY KWH PER DAY</b>			
UP TO 73,200 KWH PER ANNUM	0.0968	0.1136	0.0877	0.0863
73,200 KWH - 732,000 KWH PER ANNUM	0.0032	0.0040	0.0026	0.0029
732,000 KWH PER ANNUM AND ABOVE	0.0686 x SOQ ^ -0.2100	0.0874 x SOQ ^ -0.2100	0.0605 x SOQ ^ -0.2100	0.0660 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	28.3813	35.8526	24.8769	27.3212
	MONTHLY READ SUPPLY POINTS	30.2197	38.1749	26.4886	29.0908

## For all Distribution Networks

The indicative CSEP Administration Charge is 0.0755 pence / day / supply point. Other administration charges are presently expected to remain unchanged. These charges will cease to apply upon implementation of Xoserve's UK Link replacement (Project Nexus) currently expected to be June 2017.

The Optional LDZ charge will remain unchanged.

Securing our energy supply for future generations.

## ECN Charges by NTS Exit Zone (Direct Connects and CSEPS)

NETWORK	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: ECN/C04</b>	<b>PENCE PER PEAK DAY KWH PER DAY</b>			
EA1	0.0052			
EA2	0.0050			
EA3	0.0015			
EA4	0.0104			
EM1	0.0005			
EM2	0.0040			
EM3	0.0133			
EM4	0.0097			
NT1		0.0204		
NT2		0.0121		
NT3		0.0115		
NW1			0.0194	
NW2			0.0251	
WM1				0.0170
WM2				0.0147
WM3				0.0129

Securing our energy supply for future generations.

## DN Entry Commodity Charge / Credits for Distributed Gas

NETWORK	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: LEC</b>	<b>PENCE PER KWH</b>				
ADNAMS BREWERY SOUTHWOLD	CHARGE	0.2149			
BAY FARM	CHARGE	0.0017			
BECCLIS, SOTTERLEY	CREDIT	-0.0617			
BONBY	CREDIT	-0.0014			
CHEAR FEN FARMS, CHITTERING	CREDIT	-0.0823			
DERBY	CREDIT	-0.0774			
FAIRFIELDS FARM, WORMINGFORD	CHARGE	0.0010			
GONERBY MOOR	CREDIT	-0.0774			
GRANGE FARM, SPRIDLINGTON	CREDIT	-0.0564			
HEMSWELL CLIFF	CREDIT	-0.0014			
HOLKHAM, NORFOLK	CHARGE	0.0026			
LANKETTS GROVE	CREDIT	-0.0017			
LINDHOLME, DONCASTER	CREDIT	-0.0564			
MANOR FARM, ALDERTON	CREDIT	-0.0753			
MEPAL	CREDIT	-0.0823			
METHERINGHAM MP / IP	CREDIT	-0.0607			
METHWOLD	CHARGE	0.0026			
NORTH MOOR FARM, CROWLE	CREDIT	-0.0542			
PICKENHAM AIRFIELD	CHARGE	0.0026			
RAYNHAM FARM	CHARGE	0.0061			
REDBOURNE ROAD, HIBALDSTOW	CREDIT	-0.0774			
STOKE BARDOLPH	CREDIT	-0.0769			

Securing our energy supply for future generations.

Issued 1 November 2016

NETWORK	CHARGE / CREDIT	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
<b>CHARGE CODE: LEC</b>	<b>PENCE PER KWH</b>				
THE OAKS	CHARGE	0.0026			
WELBECK COLLIERY, MEDEN VALE	CREDIT	-0.0790			
WESTRY	CREDIT	-0.0006			
WORMSLADE FARM	CREDIT	-0.0774			
DAGENHAM	CREDIT		-0.0587		
BREDBURY PARK, STOCKPORT	CHARGE			0.0097	
DAVYHULME, URMSTON	CREDIT			-0.0641	
GRANOX, WIDNES	CREDIT			-0.0732	
ALSCOT	CREDIT				-0.0724
GRINDLEY HOUSE FARM	CREDIT				-0.0666
HAMPTON BISHOP	CREDIT				-0.0085
HIGHWOOD FARM, BRINKLOW	CREDIT				-0.0021
MINWORTH SEWAGE WORKS	CREDIT				-0.0078
ROUNDHILL	CREDIT				-0.0781
RUGELEY	CREDIT				-0.0042
STRONGFORD	CREDIT				-0.0760

Securing our energy supply for future generations.