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Dear Stuart,

Indicative notice of revised NTS Charges to apply from 1st February 2009 and 1st April 2009

I am writing to give notice of our intention to make changes to NTS gas charges. This notice covers two sets of charge changes:

- changes that will take effect on 1 February 2009 in respect to 2008/09 revenues; and
- additional changes on 1 April 2009 in respect to 2009/10 revenues.

Indicative NTS Charges to apply from 1st February 2009 (SO Charges Only)

The SO Charges that applied from 1 October 2008 were set on 1 August 2008 in order to give the required two months notice of the change. The charges were set at roughly the peak of prompt and forward gas wholesale prices. Whilst the market continues to be volatile, average prices have since fallen by about 20% following a downturn in the global economy. This means that we over-estimated shrinkage costs and therefore over-estimated the charges required to recover these costs. The combined effect of our revised forecasts is a reduction in our shrinkage costs of about £20m. Furthermore, there is evidence that lower than expected volumes have been charged at the Optional Commodity rate leading to SO income greater than forecast. Without revising our changes, we believe the 2008/09 SO allowed revenue would be exceeded by 5% - 6%.

We consider a third price change in 2008/09 is necessary to ensure that charges remain cost reflective in 2008/09 to shippers currently using the system. To this end, we believe a shorter indicative notice period of 3 months (compared to the standard 150 days) can be justified, particularly given the extent of the predicted over-recovery. Final notification of these changes will be published by 1 December 2008 to provide 2 months notice before coming effective. The change would apply to the SO Commodity and the St. Fergus Compression charges and would be levied on February and March flows. This will have the impact of reducing the forecast over-recovery to zero for 2008/09.

The following are our current central forecasts for charges to apply from 1st February 2009:

- The indicative **NTS SO Commodity charge**, as applied to both entry and exit flows, is **0.0128** p/kWh. This is a decrease of 31%, with an estimated range around this of +/-25% which corresponds to 0.0096 p/kWh to 0.0160 p/kWh.
- The **St.Fergus Compression charge** levied at the Total Oil Marine (TOM) sub-terminal at St. Fergus is expected to decrease to an indicative level of **0.0135** p/kWh, a reduction of 27% on the current rate. This reduction is due primarily to reductions in the TOM flows as well as to the effects of the recent adjustments seen in the wholesale gas prices. This charge is subject to similar uncertainties as the SO Commodity Charge.

Indicative NTS Charges to apply from 1 April 2009

In line with licence requirements to use reasonable endeavours to provide 150 days notice of potential changes, the following provides indicative charges that will apply from 1 April 2009. The final notice of the charges that shall apply from 1 April 2009 will be published by 1 February 2009, in line with the two months notice required by our licence and UNC obligations.

The following are our current central forecasts for changes to charges to apply from 1 April 2009.

- The indicative level of the **NTS SO Commodity charge**, as applied to both entry and exit flows, is **0.0167** p/kWh. This is an increase of 30% on the February 2009 indicative level. This compares with an average rate of 0.0158 p/kWh during 2008/09. Key drivers for this increase are increases in costs of shrinkage, incremental entry and exit allowances and internal costs impacting on SO allowed revenue. We forecast the range about this change is about +/- 20%.
- The **St. Fergus Compression charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to be **0.0143** p/kWh, an increase of 5.9% on the February 2009 level. This compares to an average rate of 0.0142 p/kWh during 2008/09.
- The **NTS TO Commodity charge** levied on entry flows is estimated to be **0.0098** p/kWh from 1st April 2009, a small decrease on the current level of 0.0102 p/kWh. The charge has been calculated with the uncertainties around forecasting auction revenues and entry volumes. Our indicative range around this charge is 0.0093 (-5%) to 0.0103 (+5%) p/kWh. The charge is set based on the assumption that it will be applied for the full financial year and any final figure will be reassessed for October 2009, following further entry capacity auctions.
- Charging Consultation GCM13 provides details of the indicative changes to **Exit Capacity charges**. Our aim, subject to responses to and implementation of GCM13, is to apply a one-off correction to exit capacity charges in April 2009, recalculating exit prices using updated target exit revenue without updating supply and demand data. Indicative rates show a reduction of **0.0003** p/kWh/pd across all exit points, other than where the minimum rate applies. Full details of GCM13 and the indicative levels of the exit capacity charges are available from the National Grid web site using the following link:
<http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/>

- The **CSEP administration charge** has been reviewed and there is an expected reduction from 0.1534 to 0.1185 pence per supply point per day (£0.43 per annum). This reflects the continued reduction in the unit cost of providing this administration as the number of CSEPs grows. Other administration charges (those for allocation of shared supply meter points and interconnector arrangements) are being reviewed but are not expected to change until April 2010.

If you have any questions about this Indicative Notice, or NTS charges in general, please contact myself or the Charging and Revenue Team on 01926 654633.

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