

Hannah Nixon
Partner Transmission
Ofgem
9 Millbank
London
SW1P 3GE

Anne Bennett
Charging & Revenue Manager

Anne.bennett@uk.ngrid.com
Direct tel +44 (0)1926 653445

www.nationalgrid.com

4 May 2011

Dear Hannah

INDICATIVE NTS CHARGES TO APPLY FROM 1 OCTOBER 2011

This notice is issued in line with National Grid's Gas Transporters Licence in respect of the NTS ("the Licence"). The Licence requires National Grid to provide at least 150 days notice of potential changes to its gas transportation charges. This notice applies to changes that will apply from 1 October 2011. The actual charges will be published by 1 August 2011, to provide two month's notice required by the Licence and Network Code obligations.

This notice is split into three parts: the first considers changes to TO and SO commodity charges; the second considers changes to exit capacity charges; and the third provides details of tools and supporting information that shippers can use to further understand how both types of charge have been calculated.

TO and SO Commodity Charges

Since setting gas transportation charges for April 2011 there has been a significant reduction in forecast NTS volumes specifically regarding volumes related to power generation. A persistent increase in the wholesale cost of gas and other external factors has led us to believe that the increased cost of gas will be sustained for the foreseeable future. As a consequence, National Grid expects gas-fired power stations to move down the electricity generation merit order, which has been reflected in lower forecast gas volumes. The net effect is a ~10% reduction of total gas volumes. The change in forecast is supported by actual volumes and initial evidence received from Industry via the Transporting Britain's Energy process¹. We will keep this under review from now until when final charges are set.

The impact of this revised forecast on both the TO and SO commodity charges is twofold:

- firstly the revenue expected to be collected through commodity charges between April and September will be lower than anticipated, which will increase the revenue to be collected between October and March; and

¹ <http://www.nationalgrid.com/uk/Gas/OperationalInfo/TBE/>

- secondly the charging base is lower, therefore the updated charges must increase to collect the same total revenue.

NTS TO Commodity Charge

The **NTS TO Commodity Charge** levied on entry flows is estimated to increase from its current rate of 0.0198 p/kWh to 0.0240 p/kWh, representing an increase of 21%. This increase is primarily due to:

- volume effects as outlined above; and
- lower than expected revenue from the February AMSEC auction, increasing the revenue to be collected through the commodity charge.

The main source of uncertainty for this charge is gas volumes. To provide an indication of the sensitivity of the charge to changes in volumes, if volumes were not to fall as expected and remained unchanged, the TO Commodity Charge would be 0.0203 p/kWh. Alternatively, if forecast DN demand were to increase by 1% there would be a decrease in the charge of 0.0002 p/kWh, and vice versa, if forecast DN demand were to decrease by 1% there would be an increase in the charge of 0.0002 p/kWh, as we would need to collect the same amount of revenue in both cases.

NTS SO Commodity Charges

The indicative level of the **NTS SO Commodity Charge**, as applied to both entry and exit flows, is 0.0219 p/kWh compared to the current level of 0.0179 p/kWh. This is an increase of 22% caused primarily by:

- volume effects as outlined previously; and
- the allowed revenue has increased by £8m. There are a variety of offsetting changes underlying this increase and for details of these please see the Quarterly Charge Setting Report. The allowed revenue assumes the meter reconciliation revenue originally expected to be recovered in 10/11 will be recovered in 11/12 (Braishfield & Direct Connects).

The indicative SO Commodity Charge assumes that various meter error reconciliations totalling c£49m (including Braishfield, Aberdeen, and several directly connected sites) will take place during the current formula year. Of this, approximately £30m relates to the Aberdeen meter error. National Grid intends to monitor the progress of this and other reconciliations closely before finalising the update to the SO Commodity Charge. Based on our revised forecast of gas volumes, a delay to the Aberdeen reconciliation from 2011/12 to 2012/13 would increase the SO Commodity Charge by 0.0029 p/kWh.

When calculating the forecast SO allowed revenues used to set the indicative SO Commodity Charge we have included revenues relating to incremental entry capacity at Fleetwood. Please note however that there is an existing consultation 'Income Adjusting Event claim for the Canatxx incremental entry capacity signal at Fleetwood'. At the time of publishing this notice in line with our obligations, Ofgem has not yet published the Authority decision on the income adjusting event notice referred to in the above consultation. We will confirm or update the Indicative prices in this notice once a decision has been made.

Other uncertainties relate to gas volumes and the allowed revenue to be recovered through the charge. To illustrate the relationship between volumes and the commodity charge, if volumes were not to fall as expected and remained unchanged, the SO Commodity Charge would be 0.0199 p/kWh. Alternatively, if forecast DN demand were to increase / decrease by 1% there would be an opposing 0.0002 p/kWh decrease / increase in the charge.

In terms of the various cost and revenue components which comprise the SO allowed revenue, for example, shrinkage costs, based on historical variations this is likely to be within the range of +/- £20m (over and above any change due to meter error reconciliations and Fleetwood) which would change the SO Commodity Charge by +/- 0.0019 p/kWh. If however there are any unforeseen changes such as a large sustained increase/decrease in gas costs and/or UAG volumes then variations may exceed these ranges.

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is expected to increase to an indicative level of 0.0143 p/kWh representing a 5% increase on its current level of 0.0136 p/kWh. The rise is caused by increased fuel costs. We estimate the range on this charge to be + / - 20% or + / - 0.0027 p/kWh respectively.

Summary of changes to Commodity Changes

The table below summarises the changes to the commodity charges being made in October. A comparison between the average commodity rate during 2010/11 and the indicative average for 2011/12 is also provided.

Charge	April 2011 (Current)	Oct 2011 Indicative	Annual Average ²	
			10/11	11/12
NTS TO Commodity	0.0198	0.0240	0.0187	0.0224
NTS SO Commodity	0.0179	0.0219	0.0169	0.0204
St. Fergus Compression	0.0136	0.0143	0.0095	0.0141

TO Exit Capacity Charges

The indicative changes to **NTS TO Exit Capacity Charges** to apply from 1st October 2011 together with the current, absolute change and percentage change are provided in the table at the end of this notice.

The charges have been derived from our Transportation Model. This model has been updated to reflect changes in the pipeline network, supply patterns, the expansion constant and target revenue all of which will affect exit charges. However, the following points should be noted:

- ❑ Network changes have had a negligible impact on charges.
- ❑ An increase in the expansion factor by 4.4%, to reflect a rise in the cost of investment, has effectively “stretched” the network thus increasing the range of exit charges.

² Calculated from the forecast annual revenue collectable from the charge and the relevant forecast annual chargeable volumes

- ❑ An increase in target exit revenue compared to 2010/11 has increased all exit charges up to 0.0021 p/kWh/pd, subject to rounding and the minimum price collar. However, this increase has been partially offset by an increase in the charging base caused by DNs switching interruptible capacity to firm capacity following the introduction of DN Modification 90.
- ❑ Modelled gas flows have been affected by a change in forecasts of supply sources as shown in the latest Ten Year Statement (December 2010). There has been a forecast decrease in supplies from the north (in particular St. Fergus) and an increase from Milford Haven and Isle of Grain. Consequently, exit points in the northern and north western areas have seen increases in their indicative charges whereas charges in the south and Wales area have fallen.

These indicative charges are generally lower than those published in August 2010 because the target revenue is lower by about £20m and the charging base has increased by 5%.

Shippers should be aware that further demand data will become available during May and this data will have an effect on the final exit capacity charges which will be published by 1 August 2011. Should there be a marked change, compared to the enclosed indicative charges, we will publish an update to this notice around the end of May.

Tools and Supporting Information

National Grid anticipates making the Transportation Model available to parties that have signed the licence agreement for the model. Details of how to obtain the model can be found on the charging section of our website³. Other supporting charge setting information will also be made available on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>, including a charge setting report that details the various cost and revenue components of charges; the variances in these amounts; and illustrates how they are used to determine prices.

These changes will be discussed in more detail at a subsequent Gas Transmission Charging Methodology Forum (TCMF) and the slides for this will be available on our web site prior to the meeting at <http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>.

Shippers should also be aware that a **Notice of Indicative NTS Exit Capacity Charges for 2014/15** ahead of the 2011 Application Window for Enduring Annual NTS Exit (Flat) Capacity was published on 28 April 2011 as part of the Enduring NTS Exit Capacity arrangements.

If you have any questions about this notice or NTS charges in general, please contact Karin Elmhirst (01926 655540) or Damian Clough (01926 656416).

Yours sincerely

Anne Bennett

Charging & Revenue Manager

³ <http://www.nationalgrid.com/uk/Gas/Charges/Tools/>

Indicative NTS TO Exit Capacity Charges from 1 October 2011 to 30 September 2012

Invoice	Charge Codes
CAP	NDX (DM) / NNX (NDM)

Pence per peak day kWh per day

Network	DN Exit Zone	Current	Indicative from 1 October 2011	Change	% Change
East of England	EA1	0.0042	0.0048	0.0006	14%
	EA2	0.0049	0.0047	-0.0002	-4%
	EA3	0.0001	0.0002	0.0001	100%
	EA4	0.0100	0.0108	0.0008	8%
	EM1	0.0001	0.0001	0.0000	0%
	EM2	0.0030	0.0035	0.0005	17%
	EM3	0.0139	0.0149	0.0010	7%
	EM4	0.0092	0.0100	0.0008	9%
North of England	NE1	0.0045	0.0049	0.0004	9%
	NE2	0.0006	0.0008	0.0002	33%
	NE3	0.0001	0.0001	0.0000	0%
	NO1	0.0035	0.0050	0.0015	43%
	NO2	0.0033	0.0055	0.0022	67%
London	NT1	0.0195	0.0206	0.0011	6%
	NT2	0.0109	0.0117	0.0008	7%
	NT3	0.0103	0.0112	0.0009	9%
North West	NW1	0.0142	0.0169	0.0027	19%
	NW2	0.0189	0.0217	0.0028	15%
Scotland	SC1	0.0001	0.0001	0.0000	0%
	SC2	0.0001	0.0001	0.0000	0%
	SC4	0.0001	0.0001	0.0000	0%
South of England	SE1	0.0136	0.0130	-0.0006	-4%
	SE2	0.0195	0.0206	0.0011	6%
	SO1	0.0139	0.0149	0.0010	7%
	SO2	0.0224	0.0239	0.0015	7%
Wales & the West	SW1	0.0150	0.0161	0.0011	7%
	SW2	0.0230	0.0247	0.0017	7%
	SW3	0.0340	0.0360	0.0020	6%
	WA1	0.0225	0.0239	0.0014	6%
	WA2	0.0079	0.0088	0.0009	11%
West Midlands	WM1	0.0180	0.0192	0.0012	7%
	WM2	0.0146	0.0157	0.0011	8%
	WM3	0.0130	0.0141	0.0011	8%

Indicative NTS TO Exit Capacity Charges (continued)

Invoice	Charge Code
CAP	NDX (DM)

NTS Sites	Site Name as NTS Licence Special Condition C8E	Current	Indic Oct 2011	Change	% Change
Baglan Bay PG	Tonna (Baglan Bay)	0.0055	0.0063	0.0008	15%
Barking PG	Barking (Horndon)	0.0107	0.0115	0.0008	7%
Billingham ICI	Billingham ICI (Terra Billingham)	0.0048	0.0062	0.0014	29%
BP Grangemouth	Blackness (BP Grangemouth)	0.0001	0.0001	0.0000	0%
BP Saltend HP	Saltend BPHP (BP Saltend HP)	0.0001	0.0001	0.0000	0%
Bridgewater Paper	Shotwick (Bridgewater Paper)	0.0215	0.0255	0.0040	19%
Brigg PG	Blyborough (Brigg)	0.0018	0.0023	0.0005	28%
Brimsdown PG	Epping Green (Enfield Energy, aka Brimsdown)	0.0112	0.0121	0.0009	8%
Brunner Mond	Pickmere (Winnington Power, aka Brunner Mond)	0.0187	0.0215	0.0028	15%
Centrax	Centrax Industrial	0.0333	0.0353	0.0020	6%
Connahs Quay PS	Burton Point (Connahs Quay)	0.0211	0.0253	0.0042	20%
Corby PS	Caldecott (Corby Power Station)	0.0090	0.0099	0.0009	10%
Coryton PG	Stanford Le Hope (Coryton)	0.0110	0.0118	0.0008	7%
Cottam PG	Blyborough (Cottam)	0.0028	0.0033	0.0005	18%
Damhead Creek	Middle Stoke (Damhead Creek, aka Kingsnorth PS)	0.0102	0.0097	-0.0005	-5%
Deeside PS	Deeside	0.0215	0.0252	0.0037	17%
Didcot PS	Didcot B	0.0151	0.0161	0.0010	7%
Goole Glass	Goole (Guardian Glass)	0.0014	0.0019	0.0005	36%
Grain Gas	Grain Power Station	0.0102	0.0097	-0.0005	-5%
Great Yarmouth	Bacton (Great Yarmouth)	0.0001	0.0001	0.0000	0%
Hays Chemicals	Hollingsgreen (Hays Chemicals)	0.0199	0.0220	0.0021	11%
ICI Runcorn	Weston Point (Castner Kelner, aka ICI Runcorn)	0.0234	0.0256	0.0022	9%
Immingham PG	Thornton Curtis (Humber Refinery, aka Immingham)	0.0001	0.0001	0.0000	0%
Keadby PS	Eastoft (Keadby and Keadby Blackstart)	0.0026	0.0031	0.0005	19%
Kemira Ince CHP	Shellstar (aka Kemira, not Kemira CHP)	0.0230	0.0252	0.0022	10%
Kings Lynn PS	Saddle Bow (Kings Lynn)	0.0031	0.0037	0.0006	19%
Langage PG	Langage Power Station	0.0364	0.0385	0.0021	6%
Little Barford PS	St. Neots (Little Barford)	0.0070	0.0077	0.0007	10%
Longannet	Gowkhall (Longannet)	0.0001	0.0001	0.0000	0%
Marchwood	Marchwood Power Station	0.0234	0.0248	0.0014	6%
Medway PS	Medway (aka Isle of Grain PS, NOT Grain Power)	0.0101	0.0096	-0.0005	-5%
Milford Haven Refinery	Upper Neeston (Milford Haven Refinery)	0.0001	0.0001	0.0000	0%
Pembroke PS	Pembroke PS	0.0001	0.0001	0.0000	0%
Peterborough PS	Peterborough (Peterborough Power Station)	0.0052	0.0059	0.0007	13%
Peterhead PG	St. Fergus (Peterhead)	0.0001	0.0001	0.0000	0%
Phillips Seal Sands	Phillips Petroleum, Teeside	0.0041	0.0055	0.0014	34%
Rocksavage PG	Weston Point (Rocksavage)	0.0234	0.0256	0.0022	9%
Rosecote PS	Rosecote (Rosecote Power Station)	0.0054	0.0077	0.0023	43%
Rye House PS	Ryehouse	0.0116	0.0126	0.0010	9%
St. Fergus	St. Fergus BS	0.0001	0.0001	0.0000	0%
Saltend	Rosehill (Saltend Power Station)	0.0001	0.0001	0.0000	0%
Sappi Paper Mill	Sandy Lane (Blackburn CHP, aka Sappi Paper Mill)	0.0141	0.0167	0.0026	18%
Seabank Power	Abson (Seabank Power Station phase I)	0.0219	0.0234	0.0015	7%
Seabank Power II	Seabank (Seabank Power Station phase II)	0.0238	0.0254	0.0016	7%
Sellafield PS	Sellafield Power Station	0.0096	0.0121	0.0025	26%
Shotton Paper	Harwarden (Shotton, aka Shotton Paper)	0.0212	0.0252	0.0040	19%
Spalding PG	Wragg Marsh (Spalding)	0.0042	0.0049	0.0007	17%
Stallingborough PS	Stallingborough (phase 1 and 2)	0.0001	0.0001	0.0000	0%
Staythorpe	Staythorpe PH1 and PH2	0.0002	0.0007	0.0005	250%
Sutton Bridge PS	Sutton Bridge Power Station	0.0045	0.0051	0.0006	13%
Teesside BASF	Teesside (BASF, aka BASF Teesside)	0.0041	0.0055	0.0014	34%
Teesside Hydrogen	Teesside Hydrogen	0.0041	0.0055	0.0014	34%
Teesside PS	Enron Billingham	0.0048	0.0062	0.0014	29%

NTS Sites	Site Name as NTS Licence Special Condition C8E	Current	Indic Oct 2011	Change	% Change
Thornton Curtis PG	Thornton Curtis (Killingholme)	0.0001	0.0001	0.0000	0%
West Burton PS	West Burton PS	0.0028	0.0034	0.0006	21%
Zeneca	Zeneca (ICI Avecia, aka 'Zenica')	0.0048	0.0062	0.0014	29%

Invoice	Charge Code
CAP	NDX (DM)

Pence per peak day kWh per day

Interconnectors	Site Name as NTS Licence Special Condition C8E	Current	Indic Oct 2011	Change	% Change
Bacton Interconnectors	Bacton (IUK/BBL)	0.0001	0.0001	0.0000	0%
Moffat	Moffat (Irish Interconnector)	0.0001	0.0003	0.0002	200%

Storage Sites	Site Name as NTS Licence Special Condition C8E	Current	Indic Oct 2011	Change	% Change
Avonmouth LNG	Avonmouth Max Refill	0.0238	0.0253	0.0015	6%
Barton Stacey	Barton Stacey Max Refill (Humbly Grove)	0.0216	0.0228	0.0012	6%
Caythorpe	Caythorpe	0.0001	0.0001	0.0000	0%
Cheshire (MRS)	Cheshire (Holford)	0.0194	0.0214	0.0020	10%
Dynevor Arms LNG	Dynevor Max Refill	0.0074	0.0082	0.0008	11%
Fleetwood		0.0129	0.0155	0.0026	20%
Garton (MRS)	Garton Max Refill (Aldbrough)	0.0001	0.0001	0.0000	0%
Glenmavis	Glenmavis Max Refill	0.0001	0.0001	0.0000	0%
Hatfield Moor (MRS)	Hatfield Moor Max Refill	0.0019	0.0024	0.0005	26%
Holehouse Farm (MRS)	Hole House Max Refill	0.0202	0.0223	0.0021	10%
Hornsea (MRS)	Hornsea Max Refill	0.0001	0.0001	0.0000	0%
Partington	Partington Max Refill	0.0180	0.0209	0.0029	16%
Rough	Rough Max Refill	0.0001	0.0001	0.0000	0%

Note: Site/Offtake names, as given in the Licence, have been added to the table for reference and clarification.