

Indicative Notice of Potential Changes to Gas Transportation Charges from 1 October 2011 for National Grid Distribution Networks

1. Introduction

This notice provides information on National Grid Distribution's forecast revenue position for the current 2011/12 year and on the potential for changes to distribution gas transportation charges from October 2011.

No decision on whether to change charges at October 2011 has been made. National Grid will continue to monitor the revenue position, with regard to factors impacting on both the level of Allowed Revenue and the collectable revenue for the current year. An updated view will be provided in July. Any notice of definitive changes to charges from October 2011 will be provided by 1st August.

An increase in charges at October 2011 may help to smooth out the pattern of transportation charges over 2011 and 2012 by reducing the level of increases currently forecast to be required for April 2012. National Grid would welcome feedback from shippers and other interested parties on the costs and benefits of changes to charges at October, particularly where these may help to smooth out the pattern of charges, and will take any feedback into account in making a definitive decision on whether to revise charges from October 2011.

2. Forecast Revenue Position for 2011/12

National Grid's forecast revenue position for 2011/12 is as shown below. This is consistent with the National Grid's Revenue Report published in April.

Table 1 Forecast Under-Recovery of Collectable Revenue against Allowed Revenue

Distribution Network:	East of England	London	North West	West Midlands
Forecast under-recovery for 2011/12	£0.9m	£9.4m	£6.8m	£3.2m

National Grid set the level of charges from April 2011 in mid-January based on the best information then available, with the intention of aligning collectable and allowed revenue for 2011/12. The under-recovery positions now forecast are due to changes in factors impacting on the level of Allowed Revenue since that time.

The two key factors where change has occurred are:

1) Shrinkage Costs

National Grid incurs the cost of providing gas for shrinkage in its distribution networks and the Allowed Revenue includes an allowance for this cost, subject to an incentive. The forward wholesale gas price has increased substantially (by around 30%) since mid-January so increasing the forecast shrinkage allowance, and thus creating a forecast under-recovery of collectable revenue against Allowable Revenue for the current year. The increase in the forecast shrinkage allowance is around £11m over the four networks in total.

2) Mains and Services Replacement Adjustment

This adjustment to Allowed Revenue takes into account both changes to the amount of mains and services replaced and the efficiency with which the work is undertaken. Since mid-January we have updated our forecasts of the amount and cost of replacement work, which has increased the forecast Allowed Revenue for 2011/12 and thus the forecast under-recovery positions.

3. Potential Changes to Charges from October 2011

Based on the current forecasts, National Grid is considering changes to transportation charges in two distribution networks: London and North West. The level of change to charges from October 2011 which would be required to eliminate the current forecast under-recoveries, based on current forecasts of all the factors impacting on both allowed and collectable revenue, are shown below.

Table 2 Potential Level of Change at October 2011 needed to avoid Under-Recovery

Distribution Network:	London	North West
Potential change to charges at October 2011 to eliminate forecast under-recovery	5.5%	4.0%

National Grid has not made a decision on whether these, or any other, changes to charges would be appropriate if the current forecast revenue position remains unchanged.

4. Potential Smoothing Benefits of October Changes

With no change to charge levels at October 2011 we currently forecast increases to charges in both London and North West distribution networks at April 2012 of over 10%. If charges were increased as shown above in these two networks at October 2011 then, by increasing charges earlier, the absolute level of transportation charges from April 2012 would be lower, so helping to smooth out the pattern of transportation charges. Based on current forecasts and the above changes at October 2011 a further charge increase of 5% and 4% respectively for London and North West networks would be required at April 2012 so giving a lower absolute level of transportation charges for 2012/13 than without the changes for both networks.

5. Next Steps

National Grid will continue to monitor the revenue position, with regard to factors impacting on both the level of Allowed Revenue and the collectable revenue for the current year. An updated view will be provided in July.

National Grid would welcome feedback from shippers and other interested parties on the costs and benefits of changes to charges at October, particularly where these may help to smooth out the pattern of charges, and will take any feedback into account in making a definitive decision on whether to charges from October 2011.

Please provide any feedback to Steve Armstrong, Pricing and Margins Manager, email: steve.armstrong@uk.ngrid.com.