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Dear Robert

Indicative Notice of Revised Gas NTS Charges to apply from 1 April 2007

This notice is issued in line with the GT Licence requirement to provide 150 days notice of potential charge changes. It provides indicative levels of the charges that will apply from 1st April 2007. The definitive notice of the charges that shall apply from 1st April 2007 will be published by 1st February 2007, in line with the two months notice required by our licence and Network Code obligations.

There is considerable uncertainty around the charges from 1st April 2007 due to the following;

- We are awaiting Ofgem's final proposals for a new price control which will be effective from 1st April 2007. Consequently there is considerable uncertainty around the level and structure of allowed revenues for 2007/08 as the full details of the incentive arrangements and treatment of incentive costs and revenues, which could arise, are unknown.
- A number of Pricing consultation documents are likely to be submitted to Ofgem proposing revisions to the NTS transportation charging methodology with respect to setting NTS Entry and Exit Capacity charges, and the introduction of an SO Commodity charge at NTS storage facilities. As the outcomes of these consultations are unknown, the indicative charges below, assume current methodologies. Please refer to the individual documents for an indicative effect of each on their respective charges should they be implemented. Copies of any papers will be available on National Grid's web site <http://www.nationalgrid.com/uk/gas/charges/>.

The following are our current central forecasts for charges to apply from 1st April 2007. The basis of the TO revenue allowances for these forecasts is Ofgem's Updated Proposals for the Transmission Price Control Review, published in September 2006.

- The **NTS TO Commodity charge** levied on entry flows is estimated to be 0.0150 p/kWh from 1st April 2007 and will be applied for the full Financial Year as previously indicated. The uncertainties around this figure include the forecasts of the allowed revenue, revenue from capacity auctions and entry volumes.

- The indicative change to **NTS TO Exit Capacity charges**, based on Ofgem's updated transmission price control proposals, is an average increase of around 12%. The uncertainties surrounding this figure include the level and structure of allowed revenue under the new price control.
- The indicative level of the **NTS SO Commodity charge**, as applied to both entry and exit flows, is 0.0127 p/kWh from 1st April 2007. This is an increase of 11% that has been primarily caused by forecast increases in operating costs impacting on Allowed Revenue.
- A small increase is estimated in the **compression** charge levied at the Total Oil Marine sub-terminal at St. Fergus to 0.0093 p/kWh.
- The **CSEP administration** charge has been reviewed and there is an expected reduction from £1.20 per supply point per annum to £0.56. 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 and may also change.

Please note that this indicative notice is for charges from 1st April 2007 and does not replace the possibility of a change to the NTS SO Commodity charge from 1st February 2007 as stated in the Indicative Notice of 4th September 2006. Should a change from 1st February 2007 be necessary a final notice will be published on 1st December 2006 in line with the two months notice required by our licence and Network Code obligations.

If you have any questions about this Indicative Notice, or NTS charges in general, please contact myself or Karin Elmhirst on 01926 655540.

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