

All Shippers & Interested Parties

31 January 2020

Dear Industry Participant

## **Notice of Revised Gas Transmission Transportation Charges to apply from 1 April 2020**

### **Introduction**

This notice is issued in line with National Grid Gas' ("National Grid") Transporters Licence in respect of the NTS and our obligations contained in the Uniform Network Code, which requires National Grid to provide at least two months' notice of changes to its gas transportation charges. This notice details changes that will apply from 1 April 2020 and follows the 'indicative notice' published on 1 November 2019.

A copy of our document "Notice of Gas Transmission Transportation Charges effective from 1 April 2020", which contains all charges that will apply from 1 April 2020 is available on the National Grid website under 'Final Notices'. It should be read in conjunction with this letter.

[www.nationalgridgas.com/charging/transmission-system-charges](http://www.nationalgridgas.com/charging/transmission-system-charges).

This letter contains a summary of the changes to the charges from 1 April 2020.

### **Basis of preparing charges**

National Grid sets its charges to recover the price control allowances set by Ofgem. The current RIIO-T1 price control applies from 1 April 2013 to 31 March 2021.

NTS Exit Capacity charges are normally updated once a year from 1 October. The latest published indicative Exit Capacity charges for 2020/21 were published on 1 May 2019 and utilised for user commitment in the 2019 Exit Capacity Application Window. These can be found at the following link [www.nationalgridgas.com/charging/transmission-system-charges](http://www.nationalgridgas.com/charging/transmission-system-charges) under Final Notices. For the purpose of setting the TO Exit Commodity charge we have updated the 2020/21 Transportation Model to include revised supply and demands and target revenues for the 2020/21 Exit Capacity charges.

Please be aware that there are UNC Charging modifications which may affect the Transportation Charging methodology for the Gas Year starting 1 October 2020. Of note is Modification 0678 'Amendments to Gas Transmission Charging Regime' (including ten alternates) for which Ofgem published a minded to position and impact assessment on 23 December 2019 (<https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-minded-decision-and-draft-impact-assessment>). This included a preference for October 2020 as the proposed effective date. As a decision is expected in the near future, this means there is the potential for the payable prices associated with capacity allocated and commodity charges to be impacted by such modifications.

Additional modifications may also impact the payable prices and aspects of the charging regime for the Gas Year starting 1 October 2020. Market participants should keep up to date and engage with live UNC changes and be aware of those with Ofgem for decision via the Joint Office (<http://www.gasgovernance.co.uk/livemods> and <http://gasgovernance.co.uk/index.php/withofgem>).

Please note that the charges included in this notice are currently calculated solely on the current methodology, in line with the UNC, and will continue to be so until more certainty is available on the potential changes.

## **Charging Base**

We have used our Future Energy Scenarios (FES) 2019 Central Forecast for the charging base for 2020/21, and as with the October Final Commodity Charge setting process, we have adjusted the demand forecast for Power Generation to be in line with the actuals seen for the current year. Overall demand for gas is forecast to increase by 6 TWh compared to the forecast for 2019/20 used in the October 2019 final prices.

Adjustments have been made to take account of the Entry and Exit flows that attract the Optional Commodity ('shorthaul') tariff. Flows utilising shorthaul tariff decreases the volume that attract the standard commodity rates. The net effect has been to increase our forecast demand used to set the commodity charges by less than 1%.

## **Transmission Owner (TO) Charges**

### **TO Allowed Revenues**

TO Maximum Allowed Revenue (TO MAR) which is shared 50:50 between Entry and Exit activities, has increased from the 2019/20 level of £706m to a level of £781m, an increase of £75m.

A summary table of Allowed Revenues is shown in Appendix 1 of this document.

### **NTS TO Entry Commodity charge**

The NTS TO Entry Commodity charge levied on Entry flows will increase to 0.0491 p/kWh from its current rate of 0.0447 p/kWh and from an average rate for 2019/20 of 0.0451 p/kWh, representing an increase of 9% on the average rate. This increase is primarily due to an increase in the revenue that we are seeking to recover from the TO Entry Commodity charge.

### **NTS TO Exit Commodity charge**

The TO Exit Commodity charge will increase from 0.0226 p/kWh to 0.0236 p/kWh, an increase of 4%, and an increase by 3% on the 2019/20 average of 0.0229 p/kWh.

Similarly, for the TO Exit Commodity rate, the target revenue on this charge has increased as a result of an increase in the allowed revenues, offset slightly by an increase in income from long term exit capacity sales.

A summary of TO Commodity charges can be found in Appendix 2.

## **Distribution Network (DN) Pension Deficit charge**

With the creation of Cadent Gas, and the associated ring-fencing of its pension liabilities, there were some changes to the way the DN Pension Deficit is funded from 1 April 2017. Cadent Gas pay the future Pensions Deficit costs directly and not via the DN Pensions Deficit recharge, so from 2019/20 this charge no longer applies to Cadent Gas.

DN Pension Deficit costs are £23.2m in 2009/10 prices and including inflation equates to £32.1m for 2020/21. This is an increase of £0.5m compared to last year.

The final monthly and annual DN Pension Deficit charges by Distribution Network for 2020/21 are shown in the table below.

### DN Pensions Deficit Charges

Distribution Network	Monthly Charge (£)	Annual Charge (£m)
East of England	-	
London	-	
North West	-	
West Midlands		
North of England	629,395	7.55
Scotland	434,700	5.22
South of England	1,006,710	12.08
Wales and the West	602,830	7.23

### Metering Charges

Meter maintenance charges will rise by the rate of inflation, as in previous years.

### System Operator (SO) Charges

#### SO Allowed Revenues

The SO allowed revenue has decreased by £17m from the 2019/20 level of £241m to £224m (7%).

The main reasons for this decrease are a reduction in the SO MOD and reduced shrinkage costs due to lower energy prices.

#### NTS SO Commodity Charges

The NTS SO Commodity charge, as applied to both Entry and Exit flows, is 0.0114 p/kWh, a reduction compared to the current rate of 0.0122 p/kWh (7%) and from the average rate for 2019/20 of 0.0131 p/kWh (13%). This decrease in rate is driven principally by the change in SO revenue to be collected.

#### Other SO Charges

The charge levied at the North Sea Midstream Partners (NSMP) sub-terminal at St. Fergus will decrease from its current level of 0.0127 p/kWh to 0.0125 p/kWh, a reduction of 2%.

The compression costs at St. Fergus are decreasing due to forecast lower market energy costs.

A summary of the SO charges can be found in Appendix 2.

## Supporting Information

Guidance and supporting charge setting information will be made available on the National Grid website [www.nationalgridgas.com/charging/transmission-system-charges](https://www.nationalgridgas.com/charging/transmission-system-charges) under Tools and Supporting Information.

## Getting in touch

There will be an opportunity to discuss these changes at a subsequent NTS Charging Methodology Forum (NTSCMF), details of which can be found at <https://www.gasgovernance.co.uk/ntscmf>.

If you are unable to attend NTSCMF or would prefer to obtain information about our charges via a different route, please let us know by contacting: [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com).

If you have any other questions about gas transportation charges or feedback about how we present and explain the charges in this document, please contact the Transmission charging team at [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com).

## Other Information

Further information on the methods and principles on which Transmission transportation charges are derived is set out in Uniform Network Code (UNC) – Transportation Principal Document, Section Y – Charging Methodologies. A copy of the UNC can be found at [www.gasgovernance.co.uk/TPD](http://www.gasgovernance.co.uk/TPD).

Details of National Grid and its activities can be found on the National Grid Internet site at <https://www.nationalgrid.com/uk>.

Our updated long term revenue forecasts are also available at <https://www.nationalgridgas.com/charging/transmission-system-charges>

## Appendix 1

### Allowed Revenues used for Charge Setting

	2019/20 (£m)	2020/21 (£m)	Change (£m)
TO Maximum Allowed Revenue	706	781	75
SO Maximum Allowed Revenue	241	224	-17
NTS TO Entry Commodity	289	327	38
NTS TO Exit Commodity	144	156	12
NTS SO Commodity (Entry & Exit)	165	151	-14
St. Fergus Compression	15.8	13.7	-2.1

## Appendix 2

### Summary of Commodity Charges

The table below summarises the final changes to the Commodity charges being made in April 2020. A comparison between the current and average Commodity rates during 2019/20 and the April 2020 Final is also provided.

### Summary of Commodity Charges

Charge p/kWh	Current	Average 2019/20	April 2020 Final	Change from current	% change to current
NTS TO Entry Commodity	0.0447	0.0451	0.0491	0.0044	10%
NTS TO Exit Commodity	0.0226	0.0229	0.0236	0.0010	4%
NTS SO Commodity (Entry & Exit)	0.0122	0.0131	0.0114	-0.0008	-7%
St. Fergus Compression	0.0127	0.0143	0.0125	-0.0002	-2%