

Indicative Gas Transportation Charges from 1 April 2012 for East of England, London, North West and West Midlands Distribution Networks

1. Introduction

This notice provides indicative levels of the gas transportation charges that will apply from 1 April 2012 for East of England, London, North West and West Midlands distribution networks in line with the GT Licence requirement to provide 150 days' notice of such proposals. The notice of the definitive distribution transportation charges from 1 April is expected to be published by 1 February, in line with the two months' notice requirement within each Network Code.

2. Indicative Distribution Transportation Charges

The indicative average changes to distribution transportation charge levels from 1 April 2012 are shown in Table 1. There is uncertainty around the level of change that will be necessary at April and the figures provided are the present central estimates. The indicative transportation charge rates from 1 April 2012 are shown in the appendix.

Table 1. Average Indicative Transportation Price Change from 1st April 2012

	East of England	London	North West	West Midlands
Average Change	+5.9%	+8.0%	+8.1%	+5.3%

The CSEP Administration Charge is expected to reduce to 0.1012 p/day per supply point. Other administration charges and the Optional LDZ charge are expected to be unchanged.

The indicative changes to charge levels have been based on bringing charges into line with the forecast price control allowed revenue for the period April 2012 to March 2013.

3. Methodology Changes

The new methodology for determining the LDZ System charges, as set out in the DNPC08 consultation and approved by Ofgem in January 2011, will be implemented from April 2012. The indicative LDZ System charges, as shown in the appendix, are based on the new charging functions as published for the April 2011 DNCFM but scaled to the target revenue for the LDZ System charges for 2012/13.

The changes to the levels of the Customer charges and to the capacity and commodity elements of the LDZ System charges vary from the average changes shown in Table 1 so as to provide the appropriate Customer/LDZ System charge revenue balance and a 95/5 capacity/commodity balance for the LDZ System charge revenue, based on the forecast data for 2012/13, in line with the existing charging methodology.

The distributional impacts of these changes are explained in section 5.

With the changes to the NTS Exit capacity regime at October 2012, the DN charging methodology will change so as to introduce a new DN transportation charge, the Exit Capacity NTS (ECN) charge. There is still uncertainty around the transmission charging methodology which will be used to derive the NTS exit charges and so impact the DN ECN charges from October 2012. Indicative DN ECN charges by exit zone are shown in the appendix based on the indicative NTS exit charges in UNC Modification 0356. Note that the average price changes shown in Table 1 do not include the impact of ECN charge revenue from 1st October 2012 onwards since the new ECN charges effectively replace the existing NTS Exit capacity charges for DN loads.

4. Factors Underlying Indicative Changes to Transportation Charges

Table 2 below provides an analysis of the factors underlying the indicative changes to transportation charges from April 2012.

Table 2. Factors Underlying Indicative Average Increase to Charges

Factor	East of England	London	North West	West Midlands
Inflation	5.2%	5.2%	5.2%	5.2%
Forecast Oct 2012 2% SOQ Reduction	1.0%	1.0%	1.0%	1.0%
Under-recovery carried forward (K)	-0.6%	-2.8%	0.7%	-0.5%
TMA Income Adjusting Event		4.2%		
Other adjustments	0.3%	0.4%	1.2%	-0.4%
Overall Change	5.9%	8.0%	8.1%	5.3%

The most significant element is the forecast level of inflation (RPI) for the period July to December 2011 which increases the core Allowed Revenue for 2012/13.

SOQ (capacity) levels have typically reduced at each October in recent years and a 2% SOQ reduction for October 2012 has been assumed for each network. Since capacity charges account for approximately 96.5% of distribution transportation revenue, the forecast reduction in the capacity base requires a reciprocal increase in unit transportation rates in order to maintain the same level of revenue. A 2% SOQ reduction at October 2012, mid-way through the 2012/13 Formula Year, requires a 1% compensating increase in unit charges from April 2012.

For three of the networks there is a smaller level of under-recovery expected at the end of March 2012, which will be carried forward to the Allowed Revenue for 2012/13, relative to the position for 2011/12. This reduces the increase in the Allowed Revenue and thus charges. For North West network the opposite applies.

For London network we have applied to Ofgem for an adjustment to the level of Allowed Revenue to reflect costs relating to the Traffic Management Act 2004 (TMA). The indicative charges are based upon an adjustment of £15m for 2012/13, equivalent to a 4.2% increase in charges in London network. We expect to know the definitive revenue adjustment for TMA costs for 2012/13 prior to January 2012 when the actual changes to transportation charges from April 2012 will be determined.

There are a number of other factors impacting on the indicative levels of transportation charges including changes to the level of core Allowed Revenue, pre-inflation, for 2012/13 relative to 2011/12 and changes in the levels of the cost pass-through and incentive elements of the Allowed Revenue.

5. Impact of LDZ System Methodology change and Other Rebalancing

Table 3 illustrates the impact by load band of the indicative changes to transportation charges.

Table 3: Distributional Charge Impacts of Indicative Changes

East of England DN

AQ Band	Average DN Change	LDZ Charge Update	Other Rebalancing	Overall Impact
0-73.2 MWh	5.9%	2.9%	0.1%	9.1%
73.2-732 MWh	5.9%	-8.5%	-0.3%	-3.4%
>732MWh	5.9%	-16.1%	-0.5%	-11.6%
Overall	5.9%	0.0%	0.0%	5.9%

London DN

AQ Band	Average DN Change	LDZ Charge Update	Other Rebalancing	Overall Impact
0-73.2 MWh	8.0%	1.0%	0.1%	9.2%
73.2-732 MWh	8.0%	-1.8%	-0.3%	5.7%
>732MWh	8.0%	-6.2%	-0.4%	0.9%
Overall	8.0%	0.0%	0.0%	8.0%

North West DN

AQ Band	Average DN Change	LDZ Charge Update	Other Rebalancing	Overall Impact
0-73.2 MWh	8.1%	4.1%	0.1%	12.7%
73.2-732 MWh	8.1%	-4.0%	-0.5%	3.4%
>732MWh	8.1%	-24.1%	-0.5%	-18.3%
Overall	8.1%	0.0%	0.0%	8.1%

West Midlands DN

AQ Band	Average DN Change	LDZ Charge Update	Other Rebalancing	Overall Impact
0-73.2 MWh	5.3%	1.7%	0.1%	7.3%
73.2-732 MWh	5.3%	-0.5%	-0.2%	4.6%
>732MWh	5.3%	-12.5%	-0.3%	-8.2%
Overall	5.3%	0.0%	0.0%	5.3%

The figures show the average impact for loads within each load band¹; the impact for individual loads will depend on their particular characteristics and, particularly for loads within the highest band, may vary considerably from the average shown.

The LDZ Charge Update figures show the impact of implementing the revised methodology for determining the LDZ System charges which was consulted on in the DNPC08 consultation in 2010. The distributional impacts of this change are consistent with those previously highlighted within the DNPC08 consultation paper².

The Other Rebalancing figures show the impact of the differential changes to the Customer charge and LDZ System capacity and commodity charge levels so as to keep the balance of forecast revenues from these charges in line with the existing methodology

¹ Note that the percentage impacts apply cumulatively and so do not sum to the overall figure.

² Table 2 within the DNPC08 consultation paper highlighted the distributional impacts of this change

for the Customer/LDZ System charge revenue balance and the 95/5 capacity/commodity balance for the LDZ System charge revenue.

6. Uncertainties around Indicative Transportation Charges

There are a number of factors which could lead the definitive charges implemented at April to vary from the indicative figures shown.

Supply point capacity and supply point numbers impact on the majority of the transportation charges over the price control period. Supply point capacity has reduced on average in recent years and we expect this trend to continue. We have assumed a 2% reduction in supply point capacity for each of the four networks from October 2012. We aim to update this assumption prior to determining the definitive April 2012 charges.

The level of the shrinkage allowance within the price control Allowed Revenue is dependent on the day-ahead wholesale gas price which is subject to considerable potential volatility. If the actual level of shrinkage is different from that currently forecast for the next five months, this will change the forecast over- or under-recovery for 2011/12 to be included in the 2012/13 Allowed Revenue. If the forecast level of shrinkage for 2012/13 at the time of setting the definitive April 2012 charges is different from that currently forecast this will change the forecast level of Allowed Revenue and hence the level of charges set.

The definitive mains and services replacement adjustment to Allowed Revenue for 2011/12 will not be known until July 2012. An updated forecast will be used to estimate any change in the over- or under-recovery position from 2011/12 to be included in the 2012/13 charges. This, together with any changes to the forecast mains and services replacement workload for 2012/13, will affect the estimated Allowed Revenue for 2012/13 and hence the change to charge levels required for each network.

There is uncertainty around the level of revenue adjustment in 2012/13 which will be allowed for TMA costs. We expect to know the definitive adjustment prior to January 2012.

A number of other factors, such as RPI and forecast incentive performance, could also lead to variations between the indicative and definitive charges.

6. Impact on Gas Supply Prices

The extent to which any change in transportation charges is passed through to the consumer depends upon the shipper and gas supplier.

The potential impact on gas supply prices will vary by size of consumer and network. For a typical domestic consumer, distribution transportation costs represent approximately 17% of the gas supply price.

If you have any questions about this notice please contact me.

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APPENDIX: INDICATIVE TRANSPORTATION CHARGE RATES FROM 1 APRIL 2012**EAST OF ENGLAND DN****LDZ System Capacity (Direct Connects and CSEPs)**

Charge Code	Capacity
	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1533
73,200 to 732,000 kWh per annum	0.1223
732,000 kWh per annum and above	$0.7816 \times \text{SOQ}^{-0.2155}$
Subject to a minimum rate of	0.0149

LDZ System Commodity (Direct Connects and CSEPs)

Charge Code	Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0224
73,200 to 732,000 kWh per annum	0.0178
732,000 kWh per annum and above	$0.1410 \times \text{SOQ}^{-0.2376}$
Subject to a minimum rate of	0.0018

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0841

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	24.6231
Monthly read supply points	26.2182

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0028

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0596 \times \text{SOQ}^{-0.2100}$

LONDON DN
LDZ System Capacity (Direct Connects and CSEPs)

Charge Code	Capacity
	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1648
73,200 to 732,000 kWh per annum	0.1469
732,000 kWh per annum and above	$0.9385 \times \text{SOQ}^{-0.2133}$
Subject to a minimum rate of	0.0161

LDZ System Commodity (Direct Connects and CSEPs)

Charge Code	Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0260
73,200 to 732,000 kWh per annum	0.0231
732,000 kWh per annum and above	$0.1497 \times \text{SOQ}^{-0.2147}$
Subject to a minimum rate of	0.0022

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.1038

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	32.7476
Monthly read supply points	34.8687

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0036

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0797 \times \text{SOQ}^{-0.2100}$

NORTH WEST DN

LDZ System Capacity (Direct Connects and CSEPs)

Charge Code	Capacity
	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1769
73,200 to 732,000 kWh per annum	0.1473
732,000 kWh per annum and above	$1.1616 \times \text{SOQ} \wedge^{-0.2483}$
Subject to a minimum rate of	0.0164

LDZ System Commodity (Direct Connects and CSEPs)

Charge Code	Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0240
73,200 to 732,000 kWh per annum	0.0200
732,000 kWh per annum and above	$0.1732 \times \text{SOQ} \wedge^{-0.2586}$
Subject to a minimum rate of	0.0021

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0820

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	23.2201
Monthly read supply points	24.7245

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0025

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0564 \times \text{SOQ} \wedge^{-0.2100}$

WEST MIDLANDS DN**LDZ System Capacity (Direct Connects and CSEPs)**

Charge Code	Capacity
	pence per peak day kWh per
Up to 73,200 kWh per annum	0.1658
73,200 to 732,000 kWh per annum	0.1493
732,000 kWh per annum and above	$1.8312 \times \text{SOQ} \wedge^{-0.2817}$
Subject to a minimum rate of	0.0163

LDZ System Commodity (Direct Connects and CSEPs)

Charge Code	Commodity
	pence per kWh
Up to 73,200 kWh per annum	0.0276
73,200 to 732,000 kWh per annum	0.0248
732,000 kWh per annum and above	$0.3315 \times \text{SOQ} \wedge^{-0.2911}$
Subject to a minimum rate of	0.0022

Customer Charges

Up to 73,200 kWh per annum

Invoice	Charge Code
LDZ capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0779

73,200 kWh up to 732,000 kWh per annum

Invoice	Charge Code
LDZ capacity	CFI
Fixed charge	pence per day
Non-monthly read supply points	24.6280
Monthly read supply points	26.2231

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Capacity charge	0.0027

732,000 kWh per annum and above

Invoice	Charge Code
LDZ Capacity	CCA
	Pence per peak day kWh per day
Charging function	$0.0596 \times \text{SOQ} \wedge^{-0.2100}$

FOR ALL DNS

CSEP Administration Charge 0.1012 p/day/supply point

All other administration charges and the Optional LDZ charge are expected to be unchanged.

INDICATIVE DN ECN CHARGES FROM 1ST OCTOBER 2012

Network	Exit Zone	ECN Charge p/pdkWh/d
East of England	EA1	0.0063
	EA2	0.0063
	EA3	0.0021
	EA4	0.0119
	EM1	0.0001
	EM2	0.0052
	EM3	0.0156
	EM4	0.0112
London	NT1	0.0195
	NT2	0.0118
	NT3	0.0114
North West	NW1	0.0178
	NW2	0.0223
West Midlands	WM1	0.0181
	WM2	0.0152
	WM3	0.0115