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National Grid Gas Distribution
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National Gas Emergency Service - 0800 111 999* (24hrs)
*calls will be recorded and may be monitored

Indicative Gas Transportation Charges from 1 April 2016 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 1st April 2016 for East of England, London, North West and West Midlands distribution networks in line with the Gas Transporter Licence Standard Special Condition A4 requirement to provide 150 days' notice of such proposals. The notice of the definitive distribution transportation charges from 1 April 2016 is expected to be published by 1st February 2016, in line with the two months' notice requirement within each Network Code.

2. Indicative Distribution Unit Transportation Charges

The indicative average changes to distribution transportation charge levels from 1st April 2016 are shown in Table 1 below. The individual elements of the indicative transportation charges will change by varying levels around these average levels, in line with the application of the existing charging methodology. The indicative new transportation charge rates are shown in full in the appendix.

Table 1: Indicative average change to Distribution Transportation Unit Charges effective from 1st April 2016

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	NGGD
CHANGE IN DISTRIBUTION REVENUE	(4.0%)	(3.0%)	(1.6%)	(1.0%)	**(2.6%)**
SUPPLY POINT CAPACITY CHANGES	1.1%	0.8%	0.0%	2.2%	**0.9%**
AVERAGE PRICE CHANGE	**(2.8%)**	**(2.2%)**	**(1.6%)**	**1.1%**	**(1.7%)**

The level of change shown differs from the position reported in our quarterly revenue report (MOD0186) published in early October. The difference relates solely to revised supply point capacity positions for October 2015 as provided by Xoserve on 26th October. The change is shown in the table below:

Table 2: Change in Prices Reported in October 2015 MOD0186 Revenue Report

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	NGGD
AS REPORTED IN OCTOBER MOD0186	**(2.2%)**	**(1.8%)**	**(0.6%)**	**2.0%**	**(1.0%)**
UPDATE FOR OCT-15 SOQ POSITIONS	(0.6%)	(0.4%)	(1.0%)	(0.8%)	(0.7%)
OCTOBER INDICATIVE PRICES	**(2.8%)**	**(2.2%)**	**(1.6%)**	**1.1%**	**(1.7%)**

The principal factors that drive unit price changes are (i) movement in allowed and collectable transportation revenue, and (ii) annual changes in the level of registered supply point capacity, upon which the bulk of our charges are based.

3. Movement in allowed and collectable transportation revenue from 2015/16

The key elements of movement in transportation revenue from 2015/16 are:

- Inflationary increases
- Underlying movement in base revenue per RIIO GD-1 Final Proposals
- Forecast impact of Ofgem's direction via the 2015 Annual Iteration Process
- 2 year lagged RPI "true-up" from 2014/15 (where actual RPI outturn was lower than the HM Treasury forecasts used for the purposes of price setting)
- 2 year lagged adjustments from 2014/15 in respect of pass through costs, incentives, and over/under recovery in revenue collection
- The over recovery in 2015/16 transportation revenue arising from October 2015 SOQ positions being higher than previously anticipated

The contribution of each of these factors to the average 2.6% revenue related reduction in prices is shown in table 3 below:

Table 3: Summary Movement in Transportation Revenue from 2015/16

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	NGGD
INFLATION INCREASE FROM 2015/16	0.6%	0.6%	0.6%	0.6%	0.6%
CHANGE TO BASE REVENUE PER FINAL PROPOSALS	(1.9%)	(2.7%)	(1.7%)	(3.0%)	(2.2%)
ADJUSTMENT FOR 2015 ANNUAL ITERATION	(0.8%)	(0.6%)	3.7%	0.2%	0.5%
2 YEAR LAGGED INFLATION TRUE UP	(1.8%)	(1.7%)	(1.7%)	(1.8%)	(1.8%)
2 YEAR LAGGED PASS THROUGH ADJUSTMENT	0.1%	0.0%	0.1%	0.1%	0.1%
2 YEAR LAGGED INCENTIVE ADJUSTMENT	(0.2%)	(0.2%)	0.3%	(0.3%)	(0.1%)
2 YEAR LAGGED OVER / UNDER RECOVERY	0.4%	2.5%	(0.7%)	3.4%	1.2%
IMPACT OF OCT-15 SOQ CHANGE	(0.4%)	(0.9%)	(2.1%)	(0.1%)	(0.9%)
NET MOVEMENT IN DISTRIBUTION REVENUE	**(4.0%)**	**(3.0%)**	**(1.6%)**	**(1.0%)**	**(2.6%)**

4. Change in Registered Supply Point Capacity

The indicative prices reflect the latest available information from Xoserve in respect of supply point capacity changes for the gas year commencing 1st October 2015. To establish indicative unit prices for the next charging year, a projection for supply point capacity changes as at October 2016 is required. These have been based on 3 year rolling historical average. The combined impact is illustrated in the Table 4.

Table 4: Impact of Projected Supply Point Capacity Changes to Indicative Charges

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	NGGD
OCTOBER 2015 CHANGE *12 MONTH IMPACT FROM APR-16 TO MAR-17*	(0.9%)	(1.5%)	2.7%	(2.5%)	(0.5%)
OCTOBER 2016 PROJECTION (3 YEAR AVERAGE) *6 MONTH IMPACT FROM OCT-16 TO MAR-17*	(1.5%)	(1.3%)	(2.6%)	(1.6%)	(1.8%)
COMBINED IMPACT TO INDICATIVE PRICES ***SOQ REDUCTION DRIVES UNIT PRICE INCREASE***	**1.1%**	**0.8%**	**0.0%**	**2.2%**	**0.9%**

5. Charging Methodology

There are no charging methodology changes that impact on the structure of the charges from April 2016. However, under the existing charging methodology there is a requirement to target a pre-set split of revenue recovery between the LDZ System and LDZ Customer charges, and a 95:5 recovery split between LDZ System Capacity and Commodity charges.

Additionally, the LDZ ECN charges are set to recover the sum of the following three elements:

- The 2016-17 Licence allowance for NTS Exit capacity costs;
- ECN K over/under recovery from 2014/15 and;
- The Exit Capacity cost adjustment between actual and allowed costs for 2014/15

The application of the charging methodology means that the indicative changes to the individual elements of the transportation charges will vary from the average level, as shown in Table 5 below.

Table 5: Summary Unit Price Changes by Charge Type

CHARGE TYPE	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS	NGGD
LDZ SYSTEM CAPACITY CHARGES	(2.8%)	(2.4%)	(2.4%)	1.4%	(1.9%)
LDZ SYSTEM COMMODITY CHARGES	(3.2%)	(2.4%)	(0.3%)	(1.4%)	(2.0%)
CUSTOMER CHARGES	(2.5%)	(2.8%)	(2.4%)	1.5%	(1.9%)
TOTAL LDZ CHARGES (EXCL ECN)	**(2.7%)**	**(2.5%)**	**(2.4%)**	**1.3%**	**(1.9%)**
ECN CHARGES	(5.0%)	4.0%	7.0%	(1.3%)	1.7%
AVERAGE OVERALL CHANGE	**(2.8%)**	**(2.2%)**	**(1.6%)**	**1.1%**	**(1.7%)**

The indicative transportation charge rates from 1st April 2016 are shown in full in the appendix.

6. Uncertainties impacting on level of Definitive Charges for 1st April 2016

There are still some uncertainties which will impact on the determination of the definitive transportation charges for application from 1st April 2016, which will be published on or before 1st February 2016. The key uncertainties are:

a) Estimation of the demand portfolio for 2016/17

The definitive impact of the supply point capacity reductions from 1st October 2015 on income levels will not be known until all the October invoices are issued. These will give a better picture of the level of income which is being obtained with the existing charges from October onwards. In addition there are potential changes to the customer base, in terms of new supply points, existing supply points ceasing or reducing their gas usage, and potential changes to the peak capacity requirements for larger, daily-metered, loads which need to be taken into account.

b) Inflation

The indicative charges have been based on forecast inflation of 0.6% for 2016/17 per the August 2015 version of the HM Treasury document "Forecasts for the UK Economy". The definitive forecast inflation factor underlying the maximum allowed revenue for all Distribution Networks will be known once the November 2015 version of the HM Treasury document has been published.

c) Price Control Financial Model (PCFM) impact on allowed revenue for 2016/17

As part of the price control Annual Iteration Process, the PCFM is run each November by Ofgem and the outcome impacts on the maximum allowed revenue for the following Formula Year. The operation of the PCFM this November is expected to reflect changes in the allowance for the cost of debt, Totex Incentive Mechanism outputs, and Uncertainty Mechanisms in respect of Critical National Infrastructure, Streetworks and Fuel Poor Network Extensions. The indicative charges have been based on a forecast impact of these PCFM adjustments, based on preliminary dry runs of the process. However, the definitive adjustment to 2016/17 allowed revenue will be set out in Ofgem's determination on the outcome of the 2015 Annual Iteration Process at the end of November. This will be taken into account in setting the definitive transportation charges for 1st April 2016.

If you have any questions or comments regarding this notice please contact me at the address below.

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APPENDIX: INDICATIVE TRANSPORTATION CHARGE RATES FROM 1 APRIL 2016

LDZ SYSTEM CAPACITY (DIRECT CONNECTS & CSEPS)

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCA	*PENCE PER PEAK DAY KWH PER DAY*			
UP TO 73,200 KWH PER ANNUM	0.1709	0.1909	0.2054	0.1830
73,200 TO 732,000 KWH PER ANNUM	0.1364	0.1701	0.1710	0.1648
732,000 KWH PER ANNUM AND ABOVE	0.8718 x SOQ ^ $^{-0.2155}$	1.0872 x SOQ ^ $^{-0.2133}$	1.3491 x SOQ ^ $^{-0.2483}$	2.0205 x SOQ ^ $^{-0.2817}$
SUBJECT TO A MINIMUM RATE OF	0.0167	0.0186	0.0189	0.0179

LDZ SYSTEM COMMODITY (DIRECT CONNECTS & CSEPS)

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: ZCO	*PENCE PER KWH*			
UP TO 73,200 KWH PER ANNUM	0.0245	0.0285	0.0278	0.0281
73,200 TO 732,000 KWH PER ANNUM	0.0194	0.0253	0.0232	0.0251
732,000 KWH PER ANNUM AND ABOVE	0.1542 x SOQ ^ $^{-0.2376}$	0.1636 x SOQ ^ $^{-0.2147}$	0.2016 x SOQ ^ $^{-0.2586}$	0.3373 x SOQ ^ $^{-0.2911}$
SUBJECT TO A MINIMUM RATE OF	0.0021	0.0023	0.0024	0.0024

CUSTOMER CHARGES (CAPACITY)

	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CCA	*PENCE PER PEAK DAY KWH PER DAY*			
UP TO 73,200 KWH PER ANNUM	0.0952	0.1206	0.0967	0.087
73,200 TO 732,000 KWH PER ANNUM	0.0031	0.0042	0.0029	0.0029
732,000 KWH PER ANNUM AND ABOVE	0.0675 x SOQ ^ $^{-0.2100}$	0.0927 x SOQ ^ $^{-0.2100}$	0.0666 x SOQ ^ $^{-0.2100}$	0.0665 x SOQ ^ $^{-0.2100}$

CUSTOMER CHARGES (FIXED)

73,200 TO 732,000 KWH PER ANNUM	EAST OF ENGLAND	LONDON	NORTH WEST	WEST MIDLANDS
CHARGE CODE: CFI	*PENCE PER DAY*			
NON-MONTHLY READ SUPPLY POINTS	27.9274	38.0675	27.4095	27.5125
MONTHLY READ SUPPLY POINTS	29.7364	40.5333	29.1852	29.2945

FOR ALL DISTRIBUTION NETWORKS

The indicative CSEP Administration Charge is 0.0829 pence / day / supply point. Other administration charges are presently expected to remain unchanged. These charges will cease to apply upon implementation of Xoserve's UK Link replacement.

The Optional LDZ charge will remain unchanged.

INDICATIVE ECN CHARGES FROM 1ST APRIL 2016

DISTRIBUTION NETWORK	EXIT ZONE	PENCE / PEAK DAY KWH / DAY
EAST OF ENGLAND	EA1	0.0055
	EA2	0.0054
	EA3	0.0014
	EA4	0.0114
	EM1	0.0003
	EM2	0.0041
	EM3	0.0166
	EM4	0.0113
LONDON	NT1	0.0217
	NT2	0.0127
	NT3	0.0120
NORTH WEST	NW1	0.0203
	NW2	0.0276
WEST MIDLANDS	WM1	0.0184
	WM2	0.0151
	WM3	0.0112

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INDICATIVE DN ENTRY COMMODITY CHARGES / CREDITS FOR DISTRIBUTED GAS FROM 1ST APRIL 2016

Sites operational at point of indicative price publication:

NETWORK	DISTRIBUTED GAS ENTRY POINT	ENTRY COMMODITY RATE PENCE / KWH	CREDIT / CHARGE
EAST OF ENGLAND	ADNAMS BREWERY SOUTHWOLD	0.2162	CHARGE
EAST OF ENGLAND	BECCLES, SOTTERLEY	-0.0545	CREDIT
EAST OF ENGLAND	CHEAR FEN FARMS, CHITTERING	-0.0720	CREDIT
EAST OF ENGLAND	GRANGE FARM, SPRIDLINGTON	-0.0493	CREDIT
EAST OF ENGLAND	HOLKHAM, NORFOLK	0.0010	CHARGE
EAST OF ENGLAND	LANKETTS GROVE	-0.0032	CREDIT
EAST OF ENGLAND	LINDHOLME, DONCASTER	-0.0493	CREDIT
EAST OF ENGLAND	METHERINGHAM MP / IP	-0.0521	CREDIT
EAST OF ENGLAND	RAYNHAM FARM	0.0045	CHARGE
EAST OF ENGLAND	REDBOURNE ROAD, HIBALDSTOW	-0.0673	CREDIT
NORTH WEST	BREDBURY PARK, STOCKPORT	0.0115	CHARGE
NORTH WEST	GRANOX, WIDNES	-0.0697	CREDIT
WEST MIDLANDS	MINWORTH SEWAGE WORKS	-0.0082	CREDIT

Sites expected to be in operation before or during the 2016/17 charging year:

NETWORK	DISTRIBUTED GAS ENTRY POINT	ENTRY COMMODITY RATE PENCE / KWH	CREDIT / CHARGE
EAST OF ENGLAND	FAIRFIELDS FARM, WORMINGFORD	-0.0005	CREDIT
EAST OF ENGLAND	MANOR FARM, ALDERTON	-0.0652	CREDIT
EAST OF ENGLAND	MEPAL	-0.0688	CREDIT
EAST OF ENGLAND	METHWOLD	0.0010	CHARGE
EAST OF ENGLAND	NORTH MOOR FARM, CROWLE	-0.0472	CREDIT
EAST OF ENGLAND	PICKENHAM AIRFIELD	0.0010	CHARGE
EAST OF ENGLAND	WARDEN TREE LANE	-0.0038	CREDIT
EAST OF ENGLAND	WELBECK COLLIERY, MEDEN VALE	-0.0688	CREDIT
NORTH WEST	DAVYHULME, URMSTON	-0.0608	CREDIT
WEST MIDLANDS	HIGHWOOD FARM, BRINKLOW	-0.0026	CREDIT