

## DISTRIBUTION NETWORKS PRICING CONSULTATION REPORT ON DNPC08

### Review of Standard LDZ System Charges

#### 1. The DNs' Proposals

In DNPC08 the DNs presented for consultation the proposal that the existing methodology which determines the Standard LDZ System charges should be updated so as to reflect the latest data for each DN individually. This data consists of sample data providing information on which tiers of the system loads of different sizes connect to, information on gas flows through the system from one tier to the next, and information on the cost of each tier of the system.

The application of the updated data, and in particular the updated connection sample data for directly-connected loads and for CSEP loads, indicated that it was appropriate to use the same charging functions for CSEPs as for direct loads instead of having separate charging functions as at present.

Based on the application of the combined CSEP and direct load sample data, three potential options for fitting charging functions to the derived unit cost data were outlined:

- a) Parameter Update - a simple update to the current form of function and structure of charges but reflecting each Network's cost and connection data;
- b) Best Fit - optimised functions and structures to achieve the best fit of functions to the cost and connection data for each Network; and
- c) Common Function Form - revised functions and structure to achieve the best fit to cost data constrained by common function forms and charge bands for all 8 Networks.

The analysis shown in the paper was based upon capacity charges alone on the assumption that DNPC07, the proposal to move to 100% capacity LDZ system charges, will be implemented at the same time as this proposal. However, if the DNPC07 proposal is not implemented then the DNPC08 proposals would apply to both capacity and commodity charges.

#### 2. Summary

There were 11 responses, 10 non-confidential and 1 confidential. This report covers the non-confidential responses only. Of the 10 non-confidential responses there were 8 from Shippers/Suppliers and 2 from IGTs.

<b>Shippers/Suppliers</b>	
Scottish and Southern Energy	SSE
EDF Energy	EDF
Total Gas and Power	TGP
GDF Suez Energy UK	GDF
RWE	RWE
Scottish Power	SP
British Gas	BG
Gazprom	GZP
<b>Independent Gas Transporters</b>	
GTC	GTC
ESP	ESP

The responses, summarised below, are based on the questions asked in the original consultation paper.

### **3. Should we move to a charging structure which reflects individual network costs?**

#### **3.1 Summary of Responses Received**

ESP and GTC supported the proposal as it would result in more cost-reflective charges. ESP thought that the impact of further variance between GDNs' charges on competition in connections should be considered.

SSE did not support the proposal and thought that all Networks should have the same charging structure. They thought that the IT implications of structure variations would be considerable and that such variation would result in confusion for all parties.

Three shippers (SP, EDF, RWE) supported such a move in principle. However SP felt that if this led to different charging functions then it might remove some transparency and make it more difficult for shippers to validate the invoiced charges.

SP, EDF, GDF and GZP considered that consistency should be maintained and noted that this would enable transparent comparison across DNs and was in line with developments for electricity DNOs' charging arrangements. EDF and GDF considered there were supplier competition benefits from consistent charging structures and that the proposed changes could reduce supply competition by creating additional complexity and uncertainty.

EDF opposed implementation of any of the proposals since they considered that the proposed methodology changes did not address the gap between allowed revenue and costs. They also considered that there were alternative options which had not been considered that could better meet the relevant objectives.

EDF thought that consideration should be given to a methodology based upon actual connection tier. However, SP considered that customers should not be disadvantaged purely because of the part of the network they connect onto, or the assets that they use, as they would have had no influence over this. GDF thought that the proposals were based on the premise that current supply points should be encouraged to connect differently, which was not feasible.

RWE and BG thought the proposed methodology would not necessarily give rise to cost reflective charges since it was based on a snapshot of data from only a sample of connected customers. BG noted that the DNPC05 proposals, in contrast, had utilised multiple years' data. BG considered that the methodology should be forward-looking in design.

BG considered that insufficient information had been provided to determine whether any of the proposals would result in more cost-reflective charges and that there had been minimal stakeholder engagement. They considered that an explanation in terms of physical changes to the networks was required to justify the changes. They also felt that more information on how the methodology would update over time was required.

BG and EDF thought that the proposals had not been subject to open and transparent discussion and that further options should be explored.

GDF noted that the consultation showed the potential capacity charge changes only but that the proposals could lead to commodity charge changes (dependent on DNPC07) and thought more detail was needed.

GDF thought the proposed changes were not consistent with assurances given during the DN network sales process.

**DNs' Response** All the proposals were based on a common methodology, consistent with the position at DN network sales and with the aims underlying DNO charging developments; however the different options explored the extent to which a common methodology might justifiably result in varying charging structures across DNs, taking into account individual DN costs and connection data. The DNs recognise that variation in charging structures across DNs could lead to greater complexity and higher costs for all parties, potentially impacting negatively on supplier competition and so, given the relatively small cost reflectivity benefits which the Best Fit option would have provided, have decided not to pursue that option. The Common Function Form option would provide consistent charging structures across DNs but with greater complexity and costs than the current forms; from the responses it is clear that costs of handling the changes to the charging functions and the additional complexity of charging under this option are considered to be greater than the incremental cost-reflectivity benefits which the option would provide and so the option will not be pursued at this time.

The DNs consider that the Parameter Update option would enable individual Network costs to be reflected, so improving the cost reflectivity of the resulting charges, but with minimal additional costs for all parties and retaining a common charging structure across DNs. All the options were based on analysis of average current network costs and so, when return on capital is taken into account, there is no gap between the cost analysis base and the level of allowed revenue used to set the charges.

All the options use an updated "snapshot" sample of which pipeline tiers supply points of different sizes typically connect onto. A substantial sample was taken which was large enough to provide statistical confidence that the sample results represent that of the population; indeed for larger supply points the sample was in fact the whole population. The DNs are confident therefore that a charging methodology utilising the sample data will result in charges which are reflective of the overall costs.

Given that supply points, once connected, do not change their point of connection, the sample data, together with the relative costs of the different pipeline tiers, provide a good estimate of not only the costs at that time but of the typical ongoing transportation costs to different sizes of supply point and so is "forward-looking" in that respect.

The DNs have each provided details of the statistical sample of which tiers supply points typically connect to. Since the last review of the charges in 2001 there have been changes in the connection probability data, pipeline tier costs and in the relative populations of supply points of different sizes (all of them "physical" changes now analysed on an individual DN basis) which all impact on the relative unit costs of utilising each pipeline tier and the derived typical transportation costs for supply points of a given size.

All the proposals were based upon retention of the current methodology whereby the charges reflect the typical tier of connection for a load of a given size rather than the actual connection tier. The vast majority of supply points had no influence on the tier they are connected to, which in most cases is determined by network planning considerations. Charging by actual connection tier would therefore be arbitrary and would be much more complex and costly than the current charging structure. The current methodology does not encourage supply points to connect differently so as to reduce their transportation charges, which is not feasible in most cases.

Although the details of each option within the consultation paper were on a capacity-only basis, assuming a move to 100% capacity was also implemented, if the proposed methodology change is made but retaining the existing 95/5 capacity/commodity basis then details of the structures of the capacity and commodity charges will be provided once the new methodology is known and far in advance of the implementation date.

The DNs consider that the consultation process has been open and transparent. The potential changes prior to consultation and the actual consultation options were discussed

several times at the DCMF, at which other parties were asked for further options to consider.

**4. Do you agree that, based on the analysis shown, transportation to CSEPs and to directly connected loads should use the same charging functions?**

**4.1 Summary of Responses Received**

ESP, BG and TGP considered that the analysis appeared to indicate that the same charging function should be used for CSEPs and direct loads.

GTC were broadly supportive of the change but believed further work was needed to justify the charges for medium sized networks in West Midlands and London (where they considered that their margins would be squeezed) which appeared to be inconsistent with other DNs.

SP and TGP thought that there may be benefits in standardisation and simplification from using the same charging function for both direct loads and CSEPs.

EDF considered that the analysis indicated that transportation costs were more closely correlated to connection tier than to load band and thus a methodology based on connection tier, as for electricity DNOs, would be more appropriate. They therefore considered that the case for changing to a simple charging function had not been made.

SSE did not comment on the question considering that it was an issue for DNs and IGTs to resolve.

**4.2 DNs' Response**

The DNs are pleased that the conclusions from the analysis are supported by most respondees who commented on this aspect. The issue of whether the methodology should relate to actual connection tier is covered in section 3.2.

The DNs agree that the move to a single charging function for both direct loads and CSEPs would provide benefits in standardisation and simplification, which may bring supplier competition benefits.

With regards to West Midlands and London networks, National Grid is confident that the analysis reflects the sample data collected for both direct loads and CSEPs; the overall pattern of derived charges across load bands is not very different in these networks from the other six networks, however in these two networks the derived charges under the Parameter Update option for some medium sized CSEPs are higher than current charges whereas for other networks the derived charges under the same option are always lower than current charges.

**5. Which of the three options set out (Parameter Update, Best Fit or Common Option) would you prefer to be implemented and why?**

**5.1 Summary of Responses Received**

Two shippers (SSE, TGP) and two IGTS (ESP, GTC) preferred the Parameter Update option (if a change was to be made) as it would cause the least disruption whilst improving cost reflectivity. SSE noted however that the increase in domestic transportation charges would be unwelcome. TGP thought that the additional complexity of the other options was not justified and would place a considerable burden on shippers. ESP and GTC noted that this option provided greater cost reflectivity but would not require system changes for them whereas the other options would.

SP felt it would be inappropriate to comment until DNs provided further information on the sample data, so enabling shippers to better determine the implications of each option.

EDF and GDF did not support implementation of any of the options. EDF considered that the proposals needed further development in a number of areas. GDF thought the benefits of the status quo position should have been set out. Of the options, GDF considered the Parameter Update option the least harmful.

EDF, GDF and BG thought that any change should be subject to a cost benefit analysis and impact assessment.

GDF and GZP thought that whilst other fundamental changes to the market were being worked on the focus should only be on key essential reforms, which they did not think this was.

RWE thought that any structural changes had the potential to lead to system changes which could involve costs that could ultimately increase end user charges.

BG thought any proposal should take into account the balance between cost-reflectivity, transparency and simplicity and considered that the Best Fit proposal would introduce unnecessary complexity.

## **5.2 DNs' Response**

Most of the issues raised with relation to the varying options have been considered in section 3 of this report.

The DNs note that only the Parameter Update option received any support from respondees and so, taking into account the views expressed, will only propose this option be implemented.

Continuation of the status quo position has been considered, and was implicitly the consultation default option; however the DNs consider that the cost reflectivity benefits of the Parameter Update option outweigh the small implementation costs involved; indeed some of the respondees indicated that they could already handle the Parameter Update option without further changes.

The charging impacts of the proposals were set out in detail in the consultation paper. The DNs are not in a position to undertake a cost benefit analysis, including all parties, prior to the consultation. Part of the purpose of the charging consultation is to enable respondees to highlight the cost impacts for themselves of the different options. Ofgem may, if they choose, undertake to do a formal impact assessment in response to the final proposal put to them.

The changes to the methodology have been analysed using two years data collection and comprise the major element of Distribution transportation charges. Although there may be other fundamental changes to the gas market being considered which will impact on suppliers, the DNs believe that these do not interact with the implementation of the proposals considered within the paper.

## **6. Is there any reason why the proposals should not be implemented from 1<sup>st</sup> April 2012?**

### **6.1 Summary of Responses Received**

TGP and ESP supported implementation at April 2012. TGP thought it would provide sufficient lead time for shippers to notify customers. GTC supported April 2012 implementation for the Parameter Update option, but considered that the other options would require significant systems development.

SP and RWE welcomed the proposed change of the implementation date from Apr 2011 to Apr 2012. SP felt that it would be imprudent to introduce DNPC07 at a different time to DNPC08 due to the extent of the changes shippers would need to make. They noted that the DNPC08 proposal details assumed DNPC07 was implemented and so more detail might be required, possibly impacting on the desirable implementation date.

RWE noted that the additional potential lead time with 2012 implementation was only of benefit if decisions were taken early enough to enable customer contract tariffs to be adjusted, otherwise the uncertainty could lead to a risk premium being built into end user tariffs.

EDF thought that insufficient information and supporting evidence had been provided to justify implementation of the proposals.

BG believed that the proposal should be delayed until the new governance regime was in operation so as to enable fuller consideration of the issues, preferably through a working group. However, they considered that certainty was required by 1<sup>st</sup> April 2011 if there was to be implementation in April 2012.

GDF thought that more notice should be provided because they had already contracted with customers for fixed transportation contracts beyond April 2012. Additionally, the uncertainty prior to knowing final structures and rates would impact on suppliers' offers to customers potentially distorting the market. EDF also noted that suppliers needed time between the announcement of final structures and their implementation to implement their system changes.

SSE felt unable to comment until it was known which of the options would be proposed for implementation.

## **6.2 DNs' Response**

The DNs are pleased that the proposed delay in implementation, from April 2011 to April 2012, has been generally welcomed. Submission of the proposal at this time should provide certainty of the methodology and charging structures for April 2012 by April 2011. The DNs plan to submit the DNPC07 final proposal at the same time.

There may be a few fixed supply contracts which expire beyond April 2012, however shippers have been aware of these proposals for some considerable time and so have known of the potential for charging changes when offering such fixed contracts. The DNs consider that implementation at April 2012 provides an appropriate balance between introducing the cost reflectivity benefits of the methodology changes as soon as possible and providing time for parties to implement the proposals in an orderly manner.

Shippers and other parties have been able to influence the proposals and suggest other options within the existing governance regime. The DNs therefore see no reason to delay, and consult on the changes again, under the new governance regime. To do so would introduce more uncertainty and greater costs, so impacting negatively on supplier competition to the detriment of consumers.

## **7. Other Issues Raised**

### **7.1 Impact on IGTs**

ESP noted that, for existing domestic RPC properties, the proposals would have no impact on IGT margin and that the impact for future domestic connections would be minimal. However, they considered that in certain circumstances, where ESP charges for larger supply points continually track the DN tariff, the proposals would lead to a reduction in ESP's income that would not be offset by a commensurate increase in income relating to their domestic portfolio.

### **7.2 DNs' Response**

The DNs consider that this is primarily an issue to be considered in any review of the regulation of IGT transporter charges.

#### **8. Objectives of the Charging Methodology**

The proposed change to the Standard LDZ System charges would involve a change to the charging methodology, and therefore needs to be considered with respect to the achievement of the relevant objectives of the charging methodology, set out in Standard Special Condition 5 of the Gas Transporter Licence. The relevant objectives for charges not set by auction are:

- (a) That compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;
- (b) That, so far as is consistent with (a), the charging methodology properly takes account of developments in the transportation business;
- (c) That, so far as is consistent with (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.
- (d) that the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).

##### **a) Cost Reflectivity**

The proposal to implement the Parameter Update option will enable the supply point-pipeline tier connection probabilities, gas flows and pipeline costs for each individual network to be reflected in the derived charges for each network.

##### **b) Developments in the Transportation Business**

The existing methodology reflects supply data, gas flows and costs, all on a national basis, as in 2000. Implementation of the proposal would take account of the changes to this data since 2000 and of the network by network variation to this data.

##### **c) Facilitating Effective Competition**

The proposals described in this report, whilst reflecting individual network data, will retain a common charging structure so retaining the shipper and supplier competition benefits that this brings. The proposals will also introduce a single charging function for both direct loads and CSEPs which would provide benefits in standardisation and simplification, which may bring shipper and supplier competition benefits.

#### **9. Final Proposals**

Based on the representations received and the comments made in response within this report the DNs' final proposals are:

1. That the Standard LDZ System Charges methodology be modified to reflect the Parameter Update option set out in DNPC08, namely that:

A fixed unit charge rate will apply for supply points of size 0-73.2 MWh/a;

a separate fixed unit charge rate will apply for supply points of size 73.2-732 MWh/a;

a power function will be applied for supply points in excess of 732 MWh/a in order to determine the unit charge rate.

Each Network will have its own unit rates and power function parameters as determined through Network-specific connection, gas flow and cost analysis.

2. That the change should be made with effect from 1st April 2012.

The proposed changes to the Methodology Statement are shown in Appendix 1 (in red).

Appendix 2 shows the structure of the standard LDZ System capacity charges under the proposal for each network, relative to the April 2010 charges. Note that the absolute levels of the charges shown are for illustration only and the actual charges at 1 April 2012 will be different from that shown.



**Appendix 1 Updated Charging Methodology Statement**  
**GAS DISTRIBUTION TRANSPORTATION CHARGING**  
**METHODOLOGY**

**1. Introduction**

Gas distribution transportation charges consist of:

- LDZ System charges;
- Customer charges;
- LDZ Exit Capacity NTS (ECN) charges;
- Administration charges.

For transportation to Supply Points directly connected to the distribution system the LDZ System, Customer and Administration charges are applicable. For transportation to Connected System Exit Points (CSEPs) the LDZ System and Administration charges are applicable.

The LDZ System charges and the Customer charges are set so as to maintain the proportional split of revenue recovery between them determined by the methodology. The levels of these charges are scaled proportionately to recover the target level of revenue. The LDZ ECN charges are set to aim to recover the level of cost incurred by the DN for NTS Exit Capacity in respect of NTS/LDZ offtakes in the Distribution Network. The levels of the Administration charges are based on the costs of providing the services and these charges are not scaled to recover any given proportion of the targeted revenue.

**2. Split of revenue recovery between LDZ System and Customer Charges**

The target balance of revenue recovery between LDZ System charges and Customer charges for each DN is based upon a network-specific analysis of the split of relevant costs. The costs are taken from the regulatory reporting packs submitted to Ofgem.

Customer charges reflect costs relating to service pipes funded by the transporter and the costs of emergency work relating to service pipes and supply points (i.e. not including any costs associated with gas mains). Service pipe costs include all operational and depreciation costs associated with DN-connected service pipes; these costs also include the replacement of such pipes and service pipe leakage. The relevant portion of support, employee overheads and work management costs of supporting Customer cost activities, based on direct work activity costs are attributed to the Customer cost category.

LDZ System charges reflect costs which include the cost of all work relating to assets upstream of the service pipe (including the gas mains to which the service pipes are connected) and those costs associated with managing the flow of gas through the system including capacity management. Accordingly, costs for all activities upstream of service pipes relating to the maintenance, replacement and repair of mains and larger pipes, as well as energy management work and the construction of new pipes are included in this cost category. The relevant portion of support, employee overheads and work management costs of supporting LDZ System cost activities, based on direct work activity costs are attributed to the LDZ System cost category. Depreciation costs associated with gas mains and Local Transmission System (LTS) pipes and LDZ System activity assets are attributed to the LDZ System cost category. All odorant and shrinkage costs except for service pipe leakage are attributed to the LDZ System cost category.

The network-specific estimate of the split of relevant costs is assessed using an average of an appropriate number of years for which data on a consistent basis is available for each network.

The current target revenue recovery splits are as shown in the table below.

#### Target Revenue Recovery Split between LDZ System and Customer Charges

	LDZ System	Customer
East of England	70.5%	29.5%
London	68.1%	31.9%
North West	73.7%	26.3%
West Midlands	74.0%	26.0%
Scotland Gas Networks	71.2%	28.8%
Southern Gas Networks	72.8%	27.2%
Northern Gas Networks	71.2%	28.8%
Wales & West	71.8%	28.2%

### 3. Split of revenue recovery between LDZ System Capacity and Commodity Charges

The capacity element of the LDZ System charges is targeted to recover 95%, and the commodity element of the LDZ System charges is targeted to recover 5%, of the revenue from the LDZ system charges. This split is based on an assessment of the extent to which LDZ System associated costs are related to throughput or to system capacity. The 95:5 split applies to all the DNs.

### 4. Standard LDZ System Charges

All the data underlying the Standard LDZ System Charges is derived on a Network specific basis.

The distribution networks contain a series of pipe networks split into four main pressure tiers - Local Transmission System (LTS), Intermediate Pressure System (IPS), Medium Pressure System (MPS) and Low Pressure System (LPS). Because it accounts for the majority of the total system costs the LPS is then sub-divided on the basis of pipe diameter into a further eight sub-tiers.

All LDZ System related costs are attributed across these pressure tiers and sub-tiers. The methodology below describes the derivation of the capacity charge function and is based on peak daily flows. A similar calculation, based on annual flows, is carried out to determine the commodity charge function.

The average cost of utilisation is calculated for each of the main pressure tiers of the system.

The probability of a load within a consumption band using any given pressure tier is determined by an analysis of where supply points of different sizes tend to connect to the system. Combining the average cost of utilisation with the probability of connection generates a tier charge for an average load within any given band. These tier charges are added together to give the total relative charge for a load within the consumption band to use the system.

To provide a workable basis for charging individual customers of differing sizes, the total average unit costs of utilising each tier of the distribution network are plotted. Functions are fitted to the data points representing the total unit costs such that the overall measure of error is minimised.

For the purposes of deriving charging functions the data points for the consumption bands are grouped into 3 charging bands:

- For the 0 to 73.2 MWh/a charging band a fixed unit charge is determined;

- For the 73.2 to 732 MWh/a charging band a fixed unit charge is determined;
- For the 732 MWh/a and above charging band, functions based on a power of the peak daily load (SOQ) are fitted.

## **5. Standard LDZ System Charges for Interruptible Supply Points**

The Standard LDZ System charges for interruptible Supply Points are based on the principle that interruptible Supply Points typically receive a discount of 50% on the standard LDZ System charges they would pay if they were Firm.

Prior to 1st October 2011, this means interruptible Supply Points pay 47.37% of the appropriate LDZ System Capacity charge which would apply if the Supply Point were firm plus the appropriate LDZ System Commodity charge.

On and after 1st October 2011 all Supply Points will pay firm capacity and commodity charges.

Prior to 1st October 2011, where the transporter requires a Supply Point to be interrupted for more than 15 days in a particular year there is a transportation charge credit. For each day of interruption over 15 days, a transportation charge credit equivalent to 1/15 of the annual LDZ standard capacity charge avoided by having interruptible rather than firm transportation is payable to the Shipper User.

From 1st October 2011 transportation credits in respect of interruption will cease.

## **6. Optional LDZ System Charge**

The rationale for the Optional LDZ System charge is that, for large DN-connected loads located close to the NTS, the standard LDZ System charges can appear to give perverse economic incentives for the construction of new pipelines to supply loads that are already connected to the transportation system, or for potential new loads to build lengthier and costlier pipelines than are available via nearby DN connections. This may give rise to economically inefficient bypass of the Distribution Network system, and unnecessary duplication of infrastructure.

The level of the Optional LDZ System charge is based on the estimated costs to the Distribution Network of laying and connecting a dedicated pipeline for a range of flow rates and distances from the NTS.

The costs considered in deriving the Optional LDZ System charge include the capital cost of laying the hypothetical pipeline and other capital costs relating to connection, metering, volumetric control and other requirements, and the ongoing direct and indirect costs of the hypothetical pipeline.

The level of the Optional LDZ System charge is independent of the overall level of revenue recovery targeted and so the level of the charging function remains unchanged until its cost basis is reanalysed.

Shipper Users opting for the Optional LDZ System charge pay this charge instead of the Standard LDZ System capacity and commodity charges.

## 7. Customer Charges

Customer charges reflect Supply Point costs, primarily costs relating to service pipes and emergency work relating to service pipes and supply points. The customer charge methodology is based on an attribution of the costs across Supply Points grouped into a number of consumption bands.

The costs are made up of two cost pools, broadly comprising costs associated with service pipes and costs associated with emergency work. Each cost pool is then divided among the consumption bands based on weighted consumer numbers by consumption band. The weightings are derived from estimates of how the costs of providing each of the services vary with consumption band. A total average cost per Supply Point is then calculated for each consumption band.

Functions are developed that best fit the relationship between supply point size and total average cost per supply point. The peak supply point capacity (SOQ) is used as a measure of supply point size.

For Supply Points up to 73.2 MWh/a, the Customer charge is a fixed unit capacity charge.

For Supply Points between 73.2 and 732 MWh/annum, the Customer charge consists of a fixed daily charge which varies with meter-reading frequency and a fixed unit capacity charge.

For Supply Points in excess of 732 MWh/annum, the Customer charge is a capacity charge whose unit rate is determined by a function based on a power of the peak daily load (SOQ).

## 8. LDZ Exit Capacity NTS (ECN) Charges

The LDZ ECN Charges are effective from 1 October 2012 and are a pence per peak day kWh charge applied to the supply point SOQ to determine the amount payable. The charge has a single unit rate within each Exit Zone.

The level of the LDZ ECN charges for any Exit Zone is set each year to reflect the forecast average unit NTS charges for capacity at the NTS/LDZ Offtakes which make up that Exit Zone for the coming year plus or minus the appropriate portion of the ECNK.

The ECNK is managed separately from the overall K for the purposes of setting the levels of the LDZ Exit Capacity NTS charges. It is calculated as the difference between the revenue collected from the LDZ ECN charges and the amounts paid to NG NTS in respect of the Exit Capacity Charges in the previous formula year plus or minus any ECNK from the previous period.

K means the Distribution Network Transportation Activity Revenue adjustment factor to the Distribution Network Transportation Activity Revenue in respect of over or under recovery for a Distribution Network in a Formula Year.

## 9. Administration Charges

There are specific administration charges for some services which are required by some Shipper Users but not by all. These administration charges are:

- Charges for the administration processes required to manage the daily operations and invoicing associated with CSEPs;
- Charges for the administration of allocation arrangements at Shared Supply Meter Points.

The methodology used to calculate the appropriate level of these charges is based on an assessment of the costs incurred of the ongoing activities involved in providing the services. The charges are forward looking and take into account anticipated enhancements to the methods and systems used.

## Appendix 2

### **LDZ System Capacity Charge Structures under Parameter Update Proposal**

Note: The levels of the charge rates shown are for illustration only based on April 2010 charge levels. The level of charges at April 2012 will be different from those shown below.

#### **East of England (National Grid)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1397
73,201 - 732,000	0.1113
> 732,000	$0.6910 * SOQ^{-0.2124}$

#### **North West (National Grid)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1637
73,201 - 732,000	0.1365
> 732,000	$1.0665 * SOQ^{-0.2467}$

#### **London (National Grid)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1390
73,201 - 732,000	0.1241
> 732,000	$0.7778 * SOQ^{-0.2110}$

#### **West Midlands (National Grid)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1539
73,201 - 732,000	0.1388
> 732,000	$1.6926 * SOQ^{-0.2810}$

#### **Scotland (Scotia Gas Networks)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1458
73,201 - 732,000	0.1313
> 732,000	$0.8475 * SOQ^{-0.2338}$

#### **Southern England (Scotia Gas Networks)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1470
73,201 - 732,000	0.1167
> 732,000	$1.5318 * SOQ^{-0.2970}$

#### **Northern England (Northern Gas Networks)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1526
73,201 - 732,000	0.1272
> 732,000	$1.492 * SOQ^{-0.2834}$

#### **Wales and West (Wales & West Utilities)**

Charge band (kWh/a)	Unit rate (p/Peak Day kWh/a)
0-73,200	0.1454
73,201 - 732,000	0.1262
> 732,000	$1.292 * SOQ^{-0.2513}$