



# **Notice of Indicative Gas Transmission Transportation Charges**

effective from 1 April 2019

2 November 2018

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## 1. Introduction

This notice is issued in line with National Grid's Gas Transporters Licence in respect of the NTS ("the Licence"). The Licence requires National Grid to provide at least 150 days' notice of changes to its gas transportation charges (the 'indicative' notice). This notice is issued with respect to changes that will apply from 1 April 2019. A Notice of the actual charges will be published by 31 January 2019, to provide the two months' notice required by the Licence and Network Code obligations.

**For the avoidance of doubt all charges not mentioned in this notice are unchanged from those in the 1 October 2018 Transportation Charging Statement, available at [www.nationalgridgas.com/charging/transmission-system-charges](http://www.nationalgridgas.com/charging/transmission-system-charges).**

### Basis of preparing Indicative charges

1. 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.
2. **NTS Exit Capacity** charges are normally updated once a year from 1 October. The latest published indicative Exit Capacity charges for 2019/20 were published on 1 May 2018 and utilised for user commitment in the 2018 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.
3. A revised view of the TO Exit Capacity charges for 2019/20 has been calculated and used in this charge setting process. This was to account for the revised TO allowed revenue for 2019/20 used in the indicative TO Exit Commodity rate for 2019/20.
4. Charges at most Exit points follow movements of modelled revenues. The forecast targeted revenue used in our Transportation Model 2019/20 has reduced from £468.4m to £380.3m with the effect of decreasing the forecast Exit Capacity charges by 0.0030 p/kWh/day subject to minimum rates.
5. This reduction in the Transmission Owner (TO) Maximum Allowed Revenue (MAR) from the view at May 2018 is due to a change in the forecast of the TO MOD term which is derived from the running of Ofgem's Price Control Financial Model which provides final adjustments to our allowed revenue and is forecast to reduce our allowed revenue in 2019/20. The reduction includes legacy adjustments and RIIO-1 reopeners.
6. Please be aware that Uniform Network Code **(UNC) Modification 0621 'Amendments to Gas Transmission Charging Regime' (UNC0621)** and its alternatives is awaiting a decision from Ofgem. The effective date of the UNC0621 Modifications is linked to the decision date. Consequently, there is a potential for the payable prices, associated with capacity allocated after 1 October 2019, to be impacted. This in turn may affect the commodity charges during the financial year 2019/20. **Prices 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

7. We have used our Future Energy Scenarios (FES) 2018 for the charging base for 2019/20. Overall demand for gas is forecast to decrease driven mainly by a decrease in gas for Power Generation due to decarbonisation in that sector. Our forecast has reduced by 19 TWh compared to the forecast for 2018/19 used in October 2018 final prices.
8. Adjustments have been made to take account of the Entry and Exit flows that attract the Optional Commodity ('shorthaul') tariff. Any flows utilising shorthaul decreases the volume that attract the standard commodity rates. Our forecast of the use of the shorthaul tariff has also decreased and the net effect has been to slightly decrease our forecast demand used to set the commodity charges by about 1%.
9. The forecast demand will be revisited before confirming final prices in January 2019.

## 2. Transmission Owner (TO) Charges

### TO Allowed Revenues

10. TO Maximum allowed revenue (TO MAR) which is shared 50:50 between Entry and Exit activities, has decreased from the 2018/19 level of £708m to a level of £707m, a decrease of £1m.
11. The TO MOD value, which adjusts for a number of items through an annual iteration of Ofgem's Price Control Financial Model (PCFM), will be confirmed by Ofgem by early December 2018.
12. The main uncertainties around the TO MAR relate to the MOD term and the Network Innovation Competition Fund (NICF) value both of which will be confirmed by Ofgem in time to set final charges for April 2019.
13. A summary table of Allowed Revenues is shown in Appendix 1 of this document.

### NTS TO Entry Commodity charge

14. The NTS TO Entry Commodity charge levied on Entry flows is estimated to increase to 0.0464 p/kWh from its current rate of 0.0435 p/kWh and from an average rate for 2018/19 of 0.0435 p/kWh, representing an increase of 7%. The increase in this rate is primarily due to the increase in the revenue (£21m) that we are seeking to recover from TO Entry Commodity charge.
15. The increase in revenue to collect from this charges is principally caused by reduced income from capacity auctions (-£14m) and £10m share of the reduction in the Distribution Network (DN) Pensions Deficit income. See Section 21.
16. Given the uncertainty around the TO allowed revenue and demand forecasts we have calculated the range around the indicative rate to be between -10%/+15%.

### NTS TO Exit Commodity charge

17. The TO Exit Commodity charge is expected to increase from its current rate of 0.0217 p/kWh to 0.0237 p/kWh, an increase of 9%, and an increase by 12% on the 2018/19 average of 0.0212 p/kWh.
18. Similarly, for the TO Exit Commodity rate, the target revenue on this charge has increased by £17m mainly due to reduced income from long term exit capacity sales of £5.5m and the reduction in income of other charges ie the DN Pensions Deficit income.

19. We estimate the range around this charge to be around -10/+20%.
20. A summary of TO Commodity charges can be found in Appendix 2.

## Distribution Network (DN) Pension Deficit charge

21. With the creation of Cadent Gas, and the associated ring-fencing of its pension liabilities, there are some changes to the way the DN Pension Deficit was funded from 1 April 2017. Cadent Gas pay the future Pensions Deficit costs directly and not via the DN Pensions Deficit recharge. There is a two year period (2017/18 and 2018/19) where they continued to fund the legacy deficit via the Pensions Deficit charge. From 2019/20 the charge will no longer apply to Cadent Gas.
22. DN Pension Deficit costs are estimated to be £23.2m in 2009/10 prices and including inflation equates to £31.5m for 2019/20. This is a reduction of £19m compared to last year. Any update to this number will be included in the final charges to be issued in January 2019.
23. The Indicative monthly and annual DN Pension Deficit charges by Distribution Network for 2019/20 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	618,905	7.43
Scotland	427,455	5.13
South of England	989,932	11.88
Wales and the West	592,783	7.11

## Metering Charges

24. Meter maintenance charges will rise at the rate of inflation as in previous years, currently estimated at 3.1%.

### 3. System Operator (SO) Charges

#### SO Allowed Revenues

25. The SO allowed revenue is forecast to increase by £65m from the 2018/19 level of £180m to £245m (36%).
26. The main reasons for this increase are:
  - 26.1. As in the case of the TO MOD term, the SOMOD value (currently forecast at £39m) adjusts for a number of SO items through an annual iteration of Ofgem's Price Control Financial Model (PCFM) and will be confirmed by Ofgem in by early December 2018. The increase within SOMOD by £39m is related to investment in Data Centres and cyber security. We are investing in our Critical National Infrastructure, including Data Centres and cyber security, to protect the vital service of delivering gas (and electricity) in the UK, whilst the threat to doing so is substantially increasing.
  - 26.2. A rise of £15m in shrinkage costs due to higher energy prices.

#### NTS SO Commodity Charges

27. The Indicative level of the NTS SO Commodity charge, as applied to both Entry and Exit flows, is 0.0151 p/kWh compared to the current rate of 0.0092 p/kWh (64%) and from an average rate for 2018/19 of 0.0095 p/kWh (59%). This increase in rate is driven principally by the change in SO revenue to be collected.
28. The main uncertainty around this charge is the value of shrinkage costs and the SOMOD term. To reflect this, we estimate a variation of -15% / +15% around our indicative SO Commodity rate.

#### Other SO Charges

29. The **St. Fergus Compression** charge is expected to increase compared to current level. The compression costs at St. Fergus are increasing by £1m due higher market energy costs. Compared to the high levels seen in recent years we are expecting a reduction in flows at this terminal which puts a further upward pressure on this charge.
30. The St. Fergus Compression charge levied at the North Sea Midstream Partners (NSMP) sub-terminal at St. Fergus is expected to increase from its current level of 0.0144 p/kWh to an Indicative level of 0.0165 p/kWh, an increase of 15%. We estimate the range on this charge to be -30% / +30% on our forecast of the St. Fergus Compression charge.
31. A summary of the SO charges can be found in Appendix 2.

### 4. Supporting Information

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

#### Getting in touch

33. 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>.

34. 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).
35. 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 Karin Elmhirst (01926 655540) or email the Transmission charging team at  
[box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com).

## Other Information

36. 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).
37. Details of National Grid and its activities can be found on the National Grid Internet site at <https://www.nationalgrid.com/uk>.
38. Our updated **long term revenue forecasts** will be published on our website before the end of November 2018.

## 5. Appendix 1

### Allowed Revenues used for Charge Setting

	2018/19 (£m)	2019/20 (£m)	Change (£m)
TO Maximum Allowed Revenue	708	707	-1
SO Maximum Allowed Revenue	180	245	65
NTS TO Entry Commodity	271	292	21
NTS TO Exit Commodity	132	148	17
NTS SO Commodity (Entry & Exit)	119	189	70
St. Fergus Compression	18	19	1

## 6. Appendix 2

### Summary of Commodity Charges

39. The table below summarises the Indicative changes to the Commodity charges being made in April 2019. A comparison between the current and average Commodity rates during 2018/19 and the April 2019 indicative is also provided.

#### Summary of Commodity Charges

Charge p/kWh	Current	Average 2018/19	April 2019 Indicative	Change from current	% change to current
NTS TO Entry Commodity	0.0435	0.0435	0.0464	0.0029	7%
NTS TO Exit Commodity	0.0217	0.0212	0.0237	0.0020	9%
NTS SO Commodity (Entry & Exit)	0.0092	0.0095	0.0151	0.0059	64%
St. Fergus Compression	0.0144	0.0135	0.0165	0.0021	15%

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