

Notice of Revised LDZ Gas Transportation Charges to Apply from 1st October 2009 for London and West Midlands Distribution Networks

This notice confirms the LDZ gas transportation charges which will apply from 1st October 2009 for London and West Midlands Distribution Networks. Notice is provided two months ahead of the implementation date, consistent with our Licence and Network Code obligations.

National Grid Distribution has decided to reduce gas distribution transportation charges for London DN by 10% and for West Midlands DN by 4% from 1 October 2009.

For both networks the reductions in transportation charges are being made with the aim of avoiding over-recovery against Maximum Allowed Revenue for 2009/10 which we forecast will occur otherwise. When the current charges were determined in January 2009 for implementation from 1 April 2009 the charges were set so as to recover transportation revenue in line with the Maximum Allowed Revenue. Both the collectable revenue and Allowed Revenue levels were estimated based on the best information available at the time.

Since January 2009 there have been three key changes leading to the expectation of over-recovery in these two networks:

1. Gas wholesale prices have reduced substantially leading to a reduction in the forecast shrinkage allowance for each network, so reducing the forecast Maximum Allowed Revenue for 2009/10. This change affects all our distribution networks but has been offset by other factors in East of England and North West networks.

2. The level of collectable revenue when setting the April 2009 charges was based on a forecast of the outcome of the Annual Quantity (AQ) Review for each network. The outcome of the AQ Review is still uncertain but, based on interim information provided by xoserve, for most of our networks we expect the outcome to be reasonably close to our forecast. However, for West Midlands network we expect the outcome to lead to capacity levels higher than forecast leading to an increase in capacity-related income, and further contributing to the forecast over-recovery for the network.

3. The level of mains replacement work undertaken in London DN in 2008/9 is now estimated to be considerably less than was forecast when setting the April 2009 charges. The level of mains replacement work undertaken is designed to meet the HSE targets. The HSE target for London includes the Outer Metropolitan area, however for price control purposes this Outer Metropolitan area is within East of England DN. Whilst work is planned to meet the HSE targets, the mix of work within London between the Outer Metropolitan area and inner London area is uncertain. For 2008/9 we estimate that a greater proportion of the work was done in the Outer Metropolitan area and a lesser proportion in the inner London area than was forecast at January 2009 leading to a reduction in the Mains and Services Replacement expenditure adjustment (MSRA) factor and hence to Maximum Allowed Revenue for London DN. This change has led to an increase in the MSRA factor for East of England DN which has offset the shrinkage allowance reduction.

There is still uncertainty around the final impact of these factors, particularly the shrinkage allowance and AQ Review outcome, on the revenue position for 2009/10. However we consider it prudent to reduce transportation charge levels in these two networks from October 2009 rather than wait longer. Whilst waiting would give greater certainty, a change implemented later in the Formula Year would need to be larger to achieve the same revenue effect, e.g. 20% reduction at January 2010 instead of 10% at October 2009.

With the charge reductions in London and West Midlands DNs we expect collectable revenue in these two networks to be in line, or slightly below, the Maximum Allowable Revenue for 2009/10. For East of England and North West networks we expect to under-recover against Maximum Allowable Revenue with the existing charges. Accordingly, charges in East of England and North West shall remain unchanged at this time.

The CSEP Administration Charge, other administration charges and the Optional LDZ Charge are unchanged.

The definitive LDZ transportation charges to apply from 1st October 2009 are available on the National Grid web site at

<http://www.nationalgrid.com/uk/Gas/Charges/NoticeofChange/>

If you have any questions about this notice, please contact me or Stephen Marland, Pricing Manager, tel: 01926 656912, email: stephen.a.marland@uk.ngrid.com

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