

Revised NTS Charges to apply from 1 October 2016

This notice is issued in line with National Grid Gas' ("National Grid") Transporters Licence in respect of the NTS and our obligations contained in the Uniform Network Code, which requires National Grid to provide at least two months' notice of changes to its gas transportation charges. This notice details changes that will apply from 1 October 2016 and follows the 'indicative notice' published on 29 April 2016.

A copy of our document "**Notice of Gas Transmission Transportation Charges effective from 1 October 2016**", which contains all charges that will apply from 1 October 2016 is available on the National Grid [website http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Current-charges/](http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Current-charges/) and should be read in conjunction with this note.

This note contains a summary explanation of the changes to the charges from 1 October 2016.

Charging Base

Updated demand forecasts were received at the end of May 2016 and the charge calculations continue to be based on the Gone Green scenario. The main influencing factors in the revised demand forecasts is fuel prices for power generation, gas is likely to be preferred, and so annual gas demand is expected to be higher than last years' demand in the Power Generation sector. Exports to Ireland are lower than last years' due to the new Corrib field off Ireland. The net change to demand forecast for 2016/17 is 12% higher than at April 16 charge setting and 3% higher than that used at the indicative stage. Much of this increase in demand is assumed to be using the NTS Optional Commodity charge.

This explanation of the changes to the charges is split into four parts:

- **TO Charges**
 - TO Entry and Exit Commodity
 - TO Entry Capacity Reserve prices 2017/18
- **SO Charges**
 - SO Entry and Exit Commodity
 - St Fergus Compression
- **Tools and Supporting Information**
- **Appendix**

TO Allowed Revenues

The TO allowed revenue (which is shared 50:50 between Entry and Exit activities) remains at the same level used to calculate TO charges for the April 2016 charge setting (£800m).

NTS TO Commodity Charges

NTS TO Entry Commodity Charge

The NTS TO Entry Commodity charge levied on Entry flows will decrease to **0.0481** p/kWh (-4%) from its current rate of 0.0499 p/kWh, and an average rate of 0.0488 p/kWh. This compares to the average rate of 0.0470 p/kWh in 2015/16.

Revenue to be collected from the TO Entry Commodity Charge has increased due to a reduction in TO Entry Capacity auction income of -£1.4m compared to April 2016 charge setting. However, the TO Entry Commodity Charge has decreased due to an increase in forecast entry volumes.

NTS TO Exit Commodity Charge

The TO Exit Commodity charge, which was introduced in October 2012, is a residual charge to enable National Grid to collect the correct TO Exit income from Exit shippers when NTS Exit Capacity has not been booked up to the aggregate baseline levels.

Taking into account the Exit Capacity charges and Capacity bookings for the remainder of the year, the TO Exit Commodity rate is **0.0212** p/kWh, a decrease of 5% on the current rate of 0.0223 p/kWh.

Reductions in Exit Capacity bookings, following the Exit Capacity Application Window in July, has led to a forecast of £2.6m less capacity revenue to be collected in the 6 months from October 2016. The charge has however reduced overall due to the increase in the charging base.

A summary of NTS TO Commodity charges can be found in **Table 2** of the Appendix.

NTS TO Capacity Charges

TO Entry Capacity Reserve Prices

Revised reserve prices for Capacity bids placed in the 2017 AMSEC auction for 2017/18 have been calculated using National Grid's Transportation Model¹, which has been updated to reflect changes in demand levels, the pipeline network, supply patterns, obligated Entry Capacity levels, and the cost of investment through the expansion constant, all of which may affect the charges. All prices have been calculated using the NTS obligated Entry Capacity levels.

The forecast peak demand level reduces from 5451 GWh/d in 2016/17 to 5378 GWh/d in 2017/18. There have been some changes to the Entry Capacity reserve prices due to the locational changes to supply and demand.

The revised Entry Capacity reserve prices can be found in Table 4 of the **Notice of Gas Transmission Transportation Charges effective from 1 October 2016**.

¹ See Supporting Information section for information on how to obtain a copy of our model.

Entry Rolling Monthly Auction prices for Interconnection Points have recently been published² and can be seen Table 10 of the **Notice of Gas Transmission Transportation Charges effective from 1 October 2016**.

NTS Exit Capacity Charges

NTS Exit Capacity charges including for the Interconnector Points, effective from 1 October 2016, have been published³ in a separate notice on 1 May 2016 and can be found in Tables 8 and 13, respectively in the **Notice of Gas Transmission Transportation Charges effective from 1 October 2016**.

SO Allowed Revenues

SO allowed revenue for 2016/17 is forecast to increase by £4m to £275m, compared to when charges were set for April 2016. This increase reflects a rise in external costs due to a revised view of unaccounted for gas, energy prices and Neutrality Balancing costs.

The overall income to be collected from the SO Commodity Charge has reduced by c. £10m compared to the April 16 charge setting due mainly to an increase in the NTS Optional Commodity income. This reduces the revenue to be collected via the SO Commodity charge though it also reduces the charging base.

NTS SO Commodity Charges

The NTS SO Commodity charge, as applied to both Entry and Exit flows, is **0.0129** p/kWh (-12%) compared to the current rate of 0.0147 p/kWh. This means that the average NTS SO Commodity rate for 2016/17 is 0.0136 p/kWh compared to an average rate for 2015/16 of 0.0155 p/kWh.

Other SO Charges

The **Compression Charge** levied at the Total Oil Marine sub-terminal at St. Fergus is to decrease from its current level of 0.0187 p/kWh to **0.0083** p/kWh, a 56% reduction. Our forecast of the costs for the compression at the sub-terminal are £2m higher, but forecast increase in flows at the Total Oil Marine sub-terminal have led to the rate reduction.

A summary of the SO charges can be found in **Table 2** of the Appendix.

² <http://www.gasgovernance.co.uk/sites/default/files/RMSEC%20notice%20for%20Oct%202016%20inc%20IPs.pdf>

³ <http://www.gasgovernance.co.uk/sites/default/files/Exit%20capacity%20notice%201%20may%202016.pdf>

Supporting Information

Guidance and detailed supporting charge setting information will be made available on the National Grid website at <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Tools-and-Models/>.

This includes:

- detailed information about the components of the TO and SO allowed revenues;
- how they have changed since April's charges were set; and
- how this information in conjunction with the charging base is used to calculate charges.

National Grid will be making the Transportation Model available to parties that have signed the licence agreement for the model. Details of how to obtain the model can also be found at the link above. There will be an opportunity to discuss these changes at a subsequent NTS Charging Methodology Forum (NTSCMF), details of which can be found at <http://www.gasgovernance.co.uk/ntscmf/>.

Getting in touch

If you have any questions or feedback about this document, or NTS charges in general, please contact Karin Elmhirst (01926 655540) or Colin Williams (01926 655916). or email the charging team at box.transmissioncapacityandcharging@nationalgrid.com.

Comments & Feedback

As part of our commitment to customers, National Grid welcomes comments and feedback on the information contained in this notice. In particular, to ensure that information is provided and presented in a way that is of most use to customers, we would welcome specific feedback on:

- The level of numeric detail provided to explain charge changes;
- The quality of the explanation given to describe and explain charge changes;
- Information that is not useful and could be omitted;
- Information that is missing that could be added.

These should be sent to:

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Appendix

Table 1 Forecast Allowed Revenues for Financial year 2016/17

	2016/17 at April 2016	2016/17 at October 2016	Change
TO Maximum Allowed Revenue	£800m	£800m	-
SO Maximum Allowed Revenue	£271m	£275m	£4m
Revenues to be collected from:			
NTS TO Entry Commodity	£309.4m	£310.8m	£1.4m
NTS TO Exit Commodity	£137.4m	£139.8m	£2.4m
NTS SO Commodity	£182.2m	£172.7m	-£9.5m

Table 2 Summary of Commodity Charges

NTS Charge	April 2016	Oct 16	Change
TO Entry Commodity	0.0499	0.0481	-0.0018
TO Exit Commodity	0.0223	0.0212	-0.0011
SO Commodity (Entry & Exit)	0.0147	0.0129	-0.0018
St. Fergus Compression	0.0187	0.0083	-0.0104