



To gas distribution networks,
shippers, suppliers and other
interested parties

*Promoting choice and value for
all gas and electricity customers*

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Dear colleagues

Open letter setting out changes in the opening base revenue allowances for GDNs to apply from 1 April 2013

This letter is to inform interested parties of a change to the Opening Base Revenue Allowance for some of the gas distribution networks (GDNs) that will apply from 1 April 2013. For the reasons we discuss in part A below, we have decided to make changes to the value of the Opening Base Revenue Allowance from the values published as part of our Final Proposals¹ and the Statutory Consultation on licence modifications.² The changes relate to:

- the NTS Exit Capacity cost allowance for Scotland Gas Networks plc, Southern Gas Networks plc (together SGN) and National Grid Gas plc's (NGGD) four GDNs, and
- Wales and West Utilities Limited's (WWU) prescribed rates allowance.

The changes to these cost allowances results in a change to the Opening Base Revenue Allowances.³ The Opening Base Revenue Allowances that will apply from 1 April 2013 are set out in Table 1 in part B below.

This letter sets out our policy intent but does not represent our formal notification of licence modifications that will take effect on 1 April 2013. We will publish the decision to make the relevant RIIO-GD1 licence modifications shortly. This letter is intended to provide GDNs with information on the revenue allowances from 1 April 2013 in a timely manner to help inform their charge setting processes.

A: Reasons for the changes

Since publication of the Statutory Consultation we have received representation from GDNs and suppliers in relation to the value of the NTS Exit Capacity cost allowance. NTS Exit Capacity costs are charges that the National Transmission System (NTS) charge to GDNs who in turn include in the charges that they set, which are paid by consumers. When setting cost allowances for Final Proposals we used the GDNs ECN charges⁴ which took effect on 1 October 2012.

¹ RIIO-GD1: Final Proposals – Overview (ref 168/12, 17 December 2012):

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=438&refer=Networks/GasDistr/RIIO-GD1/ConRes>

² Statutory consultation on proposed modifications to the special conditions of the gas transporter licence held by GDNs (ref 188/12, 21 December 2012):

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=451&refer=Networks/GasDistr/RIIO-GD1/ConRes>

³ Appendix 1 of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).

⁴ ECN charges is the charge that GDNs levy on shippers to recover the cost of NTS Exit Capacity charges which the NTS levies on GDNs.

Two suppliers raised concerns that the values provided would result in an over-recovery of such charges by the GDNs, and proposed that the cost allowances be changed. NGGD also noted this concern and requested that we consider changing the cost allowance to reflect more up to date information on the value of NTS charges that will apply from 1 April 2013. The NTS recently published its proposal to change its charges on 1 April 2013 and therefore there is new information available with which to set cost allowances.⁵ The NTS has proposed a change to its charges in order to reflect changes in the revenues which it recovers through charges and to reduce future volatility in such charges. It requested a direction from the Authority to permit such a change which has been granted.

As acknowledged by all parties, any over-recovery of NTS Exit Capacity costs by GDNs will be temporary only as there is a true-up mechanism in the licence to ensure that GDNs only recover NTS Exit Capacity costs to the actual value of the charges levied on them by the NTS. Therefore, any deviation of our NTS Exit Capacity cost allowance relative to outturn NTS charges will not lead to overall higher (or lower) prices to consumers.

We have discussed the possibility of adopting the latest NTS charges, and therefore changing the Opening Base Revenue Allowances, with GDNs. Along with NGGD, who requested a change be made, SGN also agreed that the cost allowance for its two GDNs should be changed. The change will minimise the possible over-recovery of its NTS Exit Capacity costs. However, WWU and NGN (where the differential between our Final Proposal cost allowance and the cost allowance that would be provided using more up to date NTS charges is less material) have informed us that they would prefer to retain the NTS charge assumptions set out at Final Proposals.

Taking into account the responses set out above, we have decided to adopt the charges published by the NTS on 14 January 2013 as the basis for NGGD GDNs' and SGN GDNs' NTS Exit Capacity cost allowances. However, for the other GDNs, we have decided to retain our original NTS Exit Capacity cost allowances as set out in Final Proposals given that the difference is less material, and the GDNs' views that they do not consider that the cost allowance provided in Final Proposals will necessarily lead to over-recovery, and where it does, any over-recovery will be temporary.

Since publication of the Statutory Consultation we have also identified an error in the prescribed rates allowance provided to WWU. With its agreement we have decided to amend the amount of the allowance. As with the NTS Exit Capacity cost allowance, any over or under-recovery against costs is temporary but in the interests of reducing volatility we are making the change at this time.

B: Effect of the changes

The effect of these two changes is to change the Opening Base Revenue Allowance for the impacted GDNs. There are no changes to the Opening Base Revenue Allowances of Northern Gas Networks Ltd. Table 1 sets out the opening base revenue allowance that will apply for the eight GDNs from 1 April 2013.

⁵ NTS GCD 10: Open Letter - Request for direction to change NTS Exit Capacity Charges (14 January 2013): <http://www.nationalgrid.com/NR/rdonlyres/28977880-B24D-4EF3-9EA2-C02579F6A63B/58449/January2013OfgemLetterAproneoffExitCapChargeChangeDirectionRequestv10.pdf>

Table 1: GDNs Opening Base Revenue Allowances

	£m							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Gas plc East of England	525.5	506.4	509.7	500.2	499.0	497.9	495.1	496.2
National Grid Gas plc London	353.1	346.4	368.5	358.9	354.0	353.0	347.6	347.2
National Grid Gas plc North West	381.7	364.7	367.6	361.4	363.1	361.6	361.3	360.6
National Grid Gas plc West Midlands	281.9	276.3	276.3	268.5	271.6	271.9	272.2	270.0
Northern Gas Network plc	340.5	338.6	348.9	340.2	330.8	333.5	336.2	341.0
Scotland Gas Networks plc	256.5	249.4	243.3	256.0	259.5	261.6	257.1	261.7
Southern Gas Networks plc	612.8	592.1	603.0	604.8	608.6	611.5	605.3	609.1
Wales and West Utilities Ltd	344.4	340.1	335.0	336.0	347.3	343.6	343.0	340.8

If you have any questions in relation to this letter please contact Joanna Campbell by email (joanna.campbell@ofgem.gov.uk) or on 020 7901 7094.

Yours sincerely



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