

Robert Hull
Director - Transmission
Ofgem
9 Millbank
London
SW1P 3GE

Nigel Fox
Charging and Revenue Manager

nigel.fox@uk.ngrid.com
Direct tel 01926 656823

www.nationalgrid.com

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Dear Robert

Indicative Notice of Revised Gas Transportation Charges to apply from 1 October 2006

This letter provides notice of proposed changes to the gas transportation charges that will apply from 1st October 2006 in line with the GT Licence requirement to provide 150 days notice of such proposals. The definitive notice of the charges to apply from 1st October 2006 will be published by 1st August 2006.

Our central forecast change to the **NTS TO Exit Capacity charges** is a uniform increase of 8%. The uncertainties around these charges include the forecast of annual peak capacities and deemed interruption and this increase may vary by +/- 3%, depending on our latest forecasts when the charges are finally set.

The **NTS TO Commodity charge** is likely to increase from its current level of zero to an indicative level of 0.0157 p/kWh. At this stage of the year, the most volatile variable within the calculation of the NTS TO Commodity charge is the forecast entry volumes; the current uncertainty around this charge is in the order of +/- 10%.

Since the introduction of the TO commodity charge, we have set the charge to zero for the first six months of the year and increased it in the latter six months to ensure accurate recovery of allowed TO revenues. With the experience and analysis of the auctions to date we propose to change to a more stable pattern of charges. We will therefore not be reducing the charge to zero for April 2007. We will provide further information relating to the indicative level of the April 2007 charge by October.

The indicative level of the **NTS SO Commodity charge**, as applied to both entry and exit flows, is 0.0112 p/kWh. This is a decrease of 7% and comprises revised central assumptions around shrinkage costs and throughputs. However, there remains considerable uncertainty around this charge because a key component, the cost of shrinkage, is so closely related to gas prices. To give an indication of the possible volatility of the charge, if the gas prices were to be as volatile as they have been recently, the charge could increase or decrease by up to 20%. Greater volatility in gas prices will of course give rise to greater changes to the SO Commodity charge.

Our current central forecast for the **St Fergus Compression charge** is that it will not change for 1st October 2006, but this will be dependent on our forecast gas costs and usage and we will reflect our latest forecast costs within the charge to be published by 1st August.

If you have any questions about the information provided in this letter, or NTS charges in general, please contact myself or Karin Elmhirst on 01926 655540.

Yours sincerely

Nigel Fox
Charging and Revenue Manager
UK Transmission – Commercial
National Grid