

Indicative Distribution Transportation Charges from 1 April 2012

1. Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1 April 2012, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1 April 2012 will be published by 1 February 2012, in accordance with the two months' notice requirement within the Uniform Network Code.

Please note that the indicative charges are adjusted to reflect the two agreed industry consultations, namely DNPC08 (Review of Standard LDZ System charges) and DNPC05 (Balance of Revenue between LDZ System and Customer Charges). This will result in rebalancing of charges between the load bands.

2. Indicative Distribution Transportation Charges

Wales & West Utilities estimate that the current level of Transportation charges, excluding Exit Capacity charges (paragraph 8 below refers), will increase by an average of 5.7% from 1st April 2012. There is some uncertainty as to the final adjustment on 1st April 2012 so the percentage increase reflects our best estimate at the current time. The final adjustment, to be published on 1st February 2012, will be influenced by our latest assessment of the under/over recovery brought forward from 2011/12 ("K"), as well as our performance against a range of incentives including shrinkage gas, exit capacity and mains and services replacement. In addition, the price adjustment will need to reflect our view of any future change in capacity income following the Annual Quantity review, effective from 1st October 2012.

3. Reasons for the Price Increase

| | |
|---|-------------|
| Core Allowed + Inflation | 5.6% |
| Incentives & Cost Pass Through Adjustment | -0.5% |
| Shrinkage | 0.2% |
| Change in K b'fwd | -1.3% |
| Income Shortfall | 1.7% |
| Indicative Change to Prices at st April 2012 | 5.7% |

Core Allowed reflects the increase in regulatory allowances under the current Price Control. Inflation is based on the average increase in RPI for six months ended 31st December 2011 compared to the corresponding period in 2010. We are forecasting a small reduction in incentives and cost pass through relative to the estimated position for 2011/12. The shrinkage gas increase is derived using the latest forward gas prices.

K brought forward reflects the movement in K between the estimated amount brought forward at the end of 2011/12 compared to the corresponding K in 2010/11.

The fall in income is relative to the forecast Allowed Revenue at 31st March 2012. We have assumed a reduction of 2% in peak day capacity (SOQ) following the AQ Review in Oct 2012.

4. Factors Which will Effect the Final Price Adjustment

4.1. Annual Quantity Review (AQ Review)

Capacity income, which is based on peak day capacity (Supply Point SOQs), represents a significant proportion of total collected income (96%). A reduction in peak day capacity has a similar effect on capacity income. We experienced a noticeable fall in capacity income following the Annual Quantity (AQ) review in October 10 (5.4%). The latest information from Xoserve indicates that following the October 11 AQ Review, peak day capacity will fall by 2% approximately.

Our indicative price increase assumes that we will continue to see peak day capacity fall so we are estimating a reduction of 2% in capacity income following the AQ Review in October 2012.

4.2 Shrinkage Gas costs

The Shrinkage Gas Incentive Mechanism allows recovery of the “day ahead” price for the shrinkage volume allowance given by Ofgem. The unpredictability of gas prices makes it difficult to estimate future “day ahead” gas prices. Consequently, the final adjustment to our prices will be dependent on our view of Gas Index Prices at the time we produce the actual Notice of charges

4.3 Mains and Services Replacement Incentive (“MSRA”)

The price control assumes a level of cost each year for replacing distribution mains and services in each network. Variations from this assumption due to workload or cost for mains and services replacement give rise, through the sharing mechanism, to a variation in the allowed revenue. Using the latest information available we have estimated a nil adjustment to our Allowed Revenue and this has been reflected in our

indicative charges.

4.4. Projected K brought forward from 2011/12

Some Allowed Revenue adjusting items and incentive performances will not be finalised until July 2012 and this could have an impact on K brought forward from 2011/12.

In addition, at the date of issuing this notice we do not have the final confirmation of the effect of the October 2011 AQ reduction on our Collected Income for the remainder of the year.

In summary, the 2011/12 Allowed Revenue is still forecast at this time and K will not be finalised until July 2012 in accordance with our reporting requirements.

5. Methodology Change

DNPC08 (Review of Standard LDZ System Charges) will be implemented from 1st April 2012 and this will result in a rebalancing of charges between load bands.

5.1 Review of Standard LDZ System Charges: DNPC08

The above consultation, which revised the calculation of LDZ System charges to reflect individual network costs, was approved by Ofgem in January 2011 for implementation from 1st April 2012. Under this consultation each network will have its own unit rates and power function parameters as determined through network-specific connection, gas flow and cost analysis. The indicative transportation charges are shown at Annex A and, for comparison purposes, what they would have been under the current methodology. Also included at Annex B is an analysis, by load band, of the indicative price adjustment which includes the effect of DNPC08.

6. Rebalancing of Charges Between Customer and System (DNPC05)

The indicative charges between Customer and System have been adjusted to restore the agreed split under DNPC05 (71.8% System Charges and 28.2% Customer Charges). Customer charges shown in Annex A reflect this adjustment. Annex B shows the effect of this adjustment by load band

7. Impact on Gas Supply Prices

The extent to which any transportation charge adjustment is passed through to consumers depends upon Shippers and gas Suppliers

8. Exit Capacity Charges From 1st October 2012

Currently, National Transmission charge Shippers directly for Exit Capacity. However, from 1st October 2012, in line with revised industry arrangements, Distribution Networks (DNs) will be responsible for charging Shippers directly. Whilst Exit Capacity charges will be levied by DN's there will be a compensating reduction in Exit Capacity charges from National Transmission ensuring that the combined Transmission and Distribution charge remains the same. To provide you with an indication of what the charges may be from 1st October 2012 we show at Annex A the latest indicative NTS prices by Exit Zone.

If you have any queries regarding this document please would you contact me on 02920 278838 or by email: john.edwards@wwutilities.co.uk

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Annex A

Indicative Unit Charges From 1 April 2012

A. LDZ System Charges From 1st April 2012: Current Methodology Shown For Comparison Purposes

LDZ Directly Connected Systems: Capacity Charge (ZCA)

| Capacity | (DNPC08 + DNPC05) | Current Methodology Including DNPC05 |
|---------------------------------|--------------------------------------|--------------------------------------|
| | (p/kWh/day) | (p/kWh/day) |
| Up to 73,200 kWh per annum | 0.1659 | 0.1588 |
| 73,200 to 732,000 kWh per annum | 0.1440 | 0.1472 |
| 732,000 kWh per annum and above | $1.2886 \times \text{SOQ}^{-0.2513}$ | $0.6978 \times \text{SOQ}^{-0.1806}$ |

LDZ Directly Connected Systems: Commodity Charge (ZCO)

| | (DNPC08 + DNPC05) | Current Methodology Including DNPC05 |
|---------------------------------|--------------------------------------|--------------------------------------|
| | pence per kWh | pence per kWh |
| Up to 73,200 kWh per annum | 0.0274 | 0.0261 |
| 73,200 to 732,000 kWh per annum | 0.0238 | 0.0243 |
| 732,000 kWh per annum and above | $0.2769 \times \text{SOQ}^{-0.2775}$ | $0.1500 \times \text{SOQ}^{-0.2121}$ |

LDZ Connected Systems (Cseps): Capacity Charge (891)

| | (DNPC08 + DNPC05) | Current Methodology Including DNPC05 |
|---------------------------------|--------------------------------------|--------------------------------------|
| | (p/kWh/day) | (p/kWh/day) |
| Up to 73,200 kWh per annum | 0.1659 | 0.1588 |
| 73,200 to 732,000 kWh per annum | 0.1440 | 0.1472 |
| 732,000 kWh per annum and above | $1.2886 \times \text{SOQ}^{-0.2513}$ | $0.7454 \times \text{SOQ}^{-0.1939}$ |

LDZ Connected Systems (Cseps): Commodity Charge (893)

| | (DNPC08 + DNPC05) | Current Methodology Including DNPC05 |
|---------------------------------|--------------------------------------|--------------------------------------|
| | pence per kWh | pence per kWh |
| Up to 73,200 kWh per annum | 0.0274 | 0.0261 |
| 73,200 to 732,000 kWh per annum | 0.0238 | 0.0243 |
| 732,000 kWh per annum and above | $0.2769 \times \text{SOQ}^{-0.2775}$ | $0.1407 \times \text{SOQ}^{-0.2131}$ |

B. LDZ Customer Charges (Not Impacted by DNPC08, only DNPC05)

LDZ Customer Capacity Charges (CCA)

| | (p/kWh/day) |
|---------------------------------|--------------------------------------|
| Up to 73,200 kWh per annum | 0.0874 |
| 73,200 to 732,000 kWh per annum | 0.0034 |
| 732,000 kWh per annum and above | $0.0689 \times \text{SOQ}^{-0.2100}$ |

LDZ Customer Fixed Charges (CFI) - 73,200 to 732,000 kWh per day

| | pence per day |
|--------------------------------|---------------|
| Non-monthly read supply points | 28.3929 |
| Monthly read supply points | 30.2323 |

C. Csep Administration Charge and Optional LDZ Charge

Csep Administration Charge (No change)

| | pence per day |
|-------------------------|---------------|
| Charge per supply point | 0.1012 |

Optional LDZ Charge (No Change)

| (p/kWh/day) |
|---|
| $902 [(\text{SOQ})^{-0.834}] \times D + 772 \times (\text{SOQ})^{-0.717}$ |

D. Indicative ECN (Exit Capacity Charges) From 1 October 2012 Based on Latest Available NTS Indicative Charges from 1st October 2012

| Exit Zone | (p/kWh/day) |
|-----------|-------------|
| SW1 | 0.0068 |
| SW2 | 0.0193 |
| SW3 | 0.0208 |
| WN | 0.0219 |
| WS | 0.0020 |

Annex B

A. Analysis of Price Adjustment From 1st April 2012: Directly Connected Supply Points

| LDZ System Charges | Load Band (MWh/a) | Average Price Increase to Recover Allowed Revenue | DNPC05 | DNPC08 | Total Price Adjustment |
|-----------------------------|---------------------|---|--------|--------|------------------------|
| Commodity | < 73.2 | 5.7% | 2.1% | 5.0% | 12.8% |
| | 73.2 - 732 | 5.7% | 1.7% | -2.1% | 5.3% |
| | 732 - 2,198 | 5.7% | 1.9% | 1.3% | 9.0% |
| | 2198 - 2,931 | 5.7% | 1.6% | -2.8% | 4.5% |
| | 2,931 - 5,861 | 5.7% | 1.4% | -6.0% | 1.0% |
| | 5,861 - 14,654 | 5.7% | 1.0% | -10.5% | -3.7% |
| | 14,654 - 29,307 | 5.7% | 0.7% | -14.4% | -8.0% |
| | 29,307 - 58,614 | 5.7% | 0.4% | -18.7% | -12.6% |
| | 58,614 - 293,071 | 5.7% | 0.2% | -22.0% | -16.1% |
| | 293,071 - 1,465,355 | 5.7% | -0.3% | -28.6% | -23.3% |
| Capacity | < 73.2 | 5.7% | -0.8% | 4.5% | 9.4% |
| | 73.2 - 732 | 5.7% | -1.2% | -2.2% | 2.3% |
| | 732 - 2,198 | 5.7% | -1.2% | -3.4% | 1.0% |
| | 2198 - 2,931 | 5.7% | -1.4% | -7.7% | -3.4% |
| | 2,931 - 5,861 | 5.7% | -1.6% | -11.0% | -6.9% |
| | 5,861 - 14,654 | 5.7% | -1.8% | -15.5% | -11.6% |
| | 14,654 - 29,307 | 5.7% | -2.0% | -19.6% | -15.8% |
| | 29,307 - 58,614 | 5.7% | -2.2% | -23.9% | -20.4% |
| | 58,614 - 293,071 | 5.7% | -2.3% | -27.2% | -23.9% |
| | 293,071 - 1,465,355 | 5.7% | -2.6% | -33.9% | -30.8% |
| LDZ Customer Charges | | | | | |
| Capacity | < 73.2 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 73.2 - 732 | 5.7% | 4.0% | 0.0% | 9.7% |
| | 732 - 2,198 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 2198 - 2,931 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 2,931 - 5,861 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 5,861 - 14,654 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 14,654 - 29,307 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 29,307 - 58,614 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 58,614 - 293,071 | 5.7% | 2.5% | 0.0% | 8.2% |
| | 293,071 - 1,465,355 | 5.7% | 2.5% | 0.0% | 8.2% |
| Fixed Charges | | | | | |
| 73.2 MWh - 732 MWh | Bi-annual read | 5.7% | 2.4% | 0.0% | 8.1% |
| | Monthly read | 5.7% | 2.4% | 0.0% | 8.1% |

Note 1

The percentage adjustment for load bands above 732 MWh is representative of average loads within the band.

B. Analysis of Price Adjustment From 1st April 2012: Connected Systems (Cseps)

| LDZ System Charges | Load Band (MWh/a) | Average Price Increase to Recover Allowed Revenue | DNPC05 | DNPC08 | Total Price Adjustment |
|---------------------------|--------------------------|--|---------------|---------------|-------------------------------|
| Commodity | < 73.2 | 5.7% | 2.1% | 5.0% | 12.8% |
| | 73.2 - 732 | 5.7% | 1.7% | -2.1% | 5.3% |
| | 732 - 2,198 | 5.7% | 0.7% | 8.6% | 15.1% |
| | 2198 - 2,931 | 5.7% | 0.2% | 3.0% | 8.9% |
| | 2,931 - 5,861 | 5.7% | -0.1% | 0.7% | 6.3% |
| | 5,861 - 14,654 | 5.7% | -0.1% | -4.7% | 0.8% |
| | 14,654 - 29,307 | 5.7% | -1.2% | -9.4% | -5.0% |
| | 29,307 - 58,614 | 5.7% | -0.7% | -13.0% | -8.0% |
| | 58,614 - 293,071 | 5.7% | -0.0% | -18.2% | -12.5% |
| | 293,071 - 1,465,355 | 5.7% | -1.6% | -26.3% | -22.2% |
| Capacity | < 73.2 | 5.7% | -0.8% | 4.5% | 9.4% |
| | 73.2 - 732 | 5.7% | -1.2% | -2.2% | 2.3% |
| | 732 - 2,198 | 5.7% | 0.1% | 1.8% | 7.6% |
| | 2198 - 2,931 | 5.7% | -0.2% | -2.6% | 2.9% |
| | 2,931 - 5,861 | 5.7% | -0.3% | -5.1% | 0.3% |
| | 5,861 - 14,654 | 5.7% | -0.5% | -9.4% | -4.3% |
| | 14,654 - 29,307 | 5.7% | -0.8% | -13.8% | -8.9% |
| | 29,307 - 58,614 | 5.7% | -0.9% | -17.1% | -12.4% |
| | 58,614 - 293,071 | 5.7% | -1.3% | -21.1% | -16.6% |
| | 293,071 - 1,465,355 | 5.7% | -1.5% | -27.1% | -22.9% |

Note 1

The percentage adjustment for load bands above 732 MWh is representative of average loads within the band.