


# Indicative Notice of Change to Transportation Charges



From 1<sup>st</sup> April 2020



1 November 2019



WALES & WEST  
UTILITIES

## Contents

Introduction.....	3
Our Allowed Revenue.....	3
Transportation Revenue.....	3
Exit Capacity.....	4
Indicative Transportation Charges .....	5
Reason for the price change .....	7
Allowed Revenue Movement.....	7
Uncertainties and assumptions .....	8
Chargeable Base .....	8
MODt through the PCFM .....	8
RPI.....	8
Current and Indicative Charges from 1 April 2020 .....	9
Indicative LDZ System Entry Commodity Charge for Distributed Gas .....	11
Further information.....	12

## Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1<sup>st</sup> April 2020, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1<sup>st</sup> April 2020 will be published by 1<sup>st</sup> February 2020, in accordance with the two months' notice requirement within the Uniform Network Code.

## Our Allowed Revenue

RIIO GD1 requires networks to set charges to collect the forecast allowed revenue calculated under the price control. This allowance is split between Transportation revenue and Exit Capacity revenue which recovers the costs incurred from utilising the upstream network, the National Transmission System (NTS).

### Transportation Revenue

	Forecast collection for 2020/21 at current charge rates (£'m)	Allowance for 2020/21 (£'m)	Delta required to be resolved (£'m)	Price change required
Transportation Revenue	414.5	413.5	-1.0	-0.2%

Latest forecast allowed revenue for 2019/20 is £416.9m. Allowed revenue (excluding exit capacity) has reduced by £3.4m between 2019/20 and 2020/21. A number of factors have led to this decrease and are outlined below.

In 09/10 prices, opening base revenue, set at the start of the price control, has decreased by £2.2m. Our annual adjustment to base revenue has reduced by £7.0m. This is largely the result of a one-off allowance for Physical Site Security Enhancement costs we were given in 19/20 of £9.7m which is not within 2020/21, a reduction in the cost of debt allowance of £2.9m which reflects the reducing iBoxx index, offset by an increase in our tax allowance of £5.5m. The uplift to nominal prices and adjustment for forecast versus actual inflation has increased by £3.3m year on year which results in an overall reduction in base revenue of £6.0m.

Incentives have increased by £1.7m in total and the negative adjustment to revenue for shrinkage cost true up has reduced by £1.0m, this adjusts for cost versus allowance on a two-year lag basis. Our correction term offsets the positive movements by £0.9m, this stems from under or over recovery of charges in T-2. The positive adjustment for pass through business rates costs has increased by £0.7m year on year following a higher cost base in 2018/19 than in 2017/18.

### Exit Capacity

	Forecast collection for 2020/21 at current charge rates (£'m)	Allowance for 2020/21 (£'m)	Delta required to be resolved (£'m)	Price change required
Exit Capacity Revenue	49.4	28.0	-21.4	-43.4%

Latest forecast allowed revenue for 2019/20 is £58.0m. Exit capacity allowed revenue has reduced by £30.1m between 2019/20 and 2020/21.

The movement in allowed revenue relates to a large cost true up in 2019/20 as a result of a significant increase to our costs in 2017/18, which we were allowed to collect in 2019/20 due to the two-year lag mechanism. In 2016/17 and 2017/18 WWU also increased its exit capacity allowance for 2018/19 and 2019/20 based on NTS forecast prices at that time which indicated that costs would remain high. Actual prices in 2018/19 were significantly lower than indicated in the previous forecasts and this resulted in a large negative cost true up in allowed revenue in 2020/21.

To mitigate the volatility in charges to customers, WWU set prices to collect £49.0m in 2019/20, rather than the £58.0m that was allowed. WWU is currently giving money back faster than our allowance intends, creating a more stable charging profile year on year. Had no action been taken, unit charges in 2019/20 would have been much higher and the subsequent price change for 2020/21 would have been much a much larger decrease.

## Indicative Transportation Charges

In order to collect the estimated Allowed Revenue, for 2020/21 of £441.4m, prices are forecast to decrease by:

- Transportation Prices: average **-0.2% decrease**
- Exit Capacity Prices: average **-43.4% decrease**

We are also required to levy charges for transportation income excluding exit capacity in the proportions set out in the Uniform Network Code Section Y (UNC). Our Charges should seek to recover allowances in the following proportion:

System Charges		Customer Capacity
71.8%		28.2%
System Capacity (plus any Optional Tariff)	Commodity	
95%	5%	

Therefore we will adjust the specific unit rates to bring collection in line with the proportions set out in UNC. All networks are required to maintain such revenue splits to retain cost reflectivity in their charging.

The specific price decreases required to maintain the collection apportionment required are:

Total Revenue				
-4.8%				
Transportation Revenue			Exit Capacity	
-0.2%			-43.4%	
Capacity		Commodity	By Exit Zone	
System	Customer	22.1 %	SW1	-43%
			SW2	-43%
			SW3	-40%
			WA1	-42%
			WA2	-79%
-0.5%	-1.9%			

Exit capacity prices are levied by exit zone taking into account the unit prices for exit points within that zone, capacity bookings for those exit points and prior year under or over recovery for that exit zone. The variability in NTS prices introduces the variability in the unit rates levied at each exit zone.



## Reason for the price change

In setting network charges each network must consider:

1. The movement in allowed revenue year on year.
2. Changes to the chargeable base which have occurred over the past charging year and forecast to occur in the next.

The movement in Allowed Revenue can be seen when compared to the prior year as:

### Allowed Revenue Movement

	2019/20 (£'m)	2020/21 (£'m)	Change (£'m)	Change (%)	Commentary
Base Revenue	446.78	426.28	(20.50)	-5%	Reductions in base allowance - £2.2m, Exit allowance - £11.2m, allowance for cost of debt - £2.8m and Physical Site Security costs - £9.7m are offset by increases in the tax allowance £5.6
Exit Capacity Cost True Up	13.92	(13.92)	(27.84)	-200%	Represents the cost true up from 2017/18 and 2018/19 respectively. 2019/20 reflects the significant cost increase we received from NTS in 2017/18, whereas 2020/21 is a result of the subsequent large decrease to costs in 2018/19
Shrinkage Cost True Up	(5.35)	(4.36)	0.98	-18%	Decrease stems from a year on year decrease in shrinkage volumes.
Incentives and Innovation	8.63	10.25	1.62	19%	£1.9m increase in Environmental Emissions incentive revenue adjustment in 2020/21 due to improved performance on targets
Pass through	14.73	15.55	0.83	6%	£0.7m increase in business rates adjustment year on year
'K'	(3.80)	7.63	11.43	-301%	2020/21 reflects the targeted under recovery of exit capacity costs in 2018/19 which enabled us to pass on the benefit of reduced NTS costs faster than the allowance intended.
Total Allowed Revenue	474.91	441.43	(33.47)	-7%	
Of which					
Transportation	416.85	413.48	(3.37)	-1%	
Exit Capacity	58.06	27.95	(30.11)	-52%	The cost adjustment and reduced base allowance decreases the Exit Capacity allowance in 2020/21

## Uncertainties and assumptions

Our indicative charges are set using the best estimates available, however movements can occur between these estimates and the final values utilised in final price setting by 1st February 2020. Key subjectivities include:

### Chargeable Base

Historically networks were required at the indicative stage of price setting to assume the likely impact of the current years AQ review and forecast the potential changes in both AQ and Load Factor for the following October.

Project Nexus introduced the concept of the chargeable SOQ, based on the network snapshot taken annually each December. This has largely removed the requirement for assumptions on network change to be made at final price setting. The rolling AQ process also results in the ability of the network to make informed assumptions over the December snapshot yet to be taken.

Final prices will reflect the December snapshot of capacity required on our network.

### MODt through the PCFM

At the time of this publication Ofgem have not formally published the “MOD” figure that will be included in 2020/21 prices after running the Annual Iteration Process. The indicative charges above include an estimate of what the MOD will be and this will be updated with finalised figures for the 60-day pricing notice.

For the November 2019 annual iteration process there is further uncertainty to the value for Cost of Debt (CDE) due to the timing of supporting information from HM Treasury being outside the window required by Ofgem to direct the value for CDE. This is unlikely to lead to a material variance from the assumption made in this indicative notice of charges.

### RPI

Prices will be set using the November 2019 Treasury Forecast. This is not known at the time of indicative price setting therefore the forecast published in August 2019 has been used, the latest available Treasury forecast.

The final price change, to be published by 1<sup>st</sup> February 2020, will reflect the RPI percentage increase reported in the November 2019 Treasury publication.



## Current and Indicative Charges from 1 April 2020

LDZ SYSTEM COMMODITY CHARGES	Current Price (effective from 1 April 2019)	Indicative Prices effective 1 April 2020
	Pence per kwh	
UP TO 73,200 KWH PER ANNUM	0.0346	0.0422
73,200 KWH - 732,000 KWH PER ANNUM	0.0302	0.0369
732,000 KWH PER ANNUM AND ABOVE	0.3508	0.4283
	x SOQ ^	
	-0.2775	-0.2775
SUBJECT TO A MINIMUM RATE OF	0.0025	0.0031

LDZ SYSTEM CAPACITY CHARGES	Pence per peak day kwh per day	
	UP TO 73,200 KWH PER ANNUM	0.1993
73,200 KWH - 732,000 KWH PER ANNUM	0.1729	0.1720
732,000 KWH PER ANNUM AND ABOVE	1.5485	1.5408
	x SOQ ^	
	-0.2513	-0.2513
SUBJECT TO A MINIMUM RATE OF	0.0147	0.0146

LDZ CUSTOMER CAPACITY CHARGES	Pence per peak day kwh per day	
	UP TO 73,200 KWH PER ANNUM	0.1068
73,200 KWH - 732,000 KWH PER ANNUM	0.0042	0.0041
732,000 KWH PER ANNUM AND ABOVE	0.0843	0.0827
	x SOQ ^	
	-0.2100	-0.2100

LDZ CUSTOMER FIXED CHARGES	Pence per day	
	73,200 KWH - 732,000 KWH PER ANNUM - BI ANNUAL READ SITES	33.1802
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	35.3297	34.6584

	Price effective from 1 April 2019	Price effective from 1 April 2020
<b>EXIT CAPACITY UNIT RATES BY EXIT ZONE</b>	<b>Pence per peak day kwh per day</b>	
SW1	0.0126	0.0072
SW2	0.0413	0.0237
SW3	0.0472	0.0284
WA1	0.0545	0.0315
WA2	0.0033	0.0007

## Indicative LDZ System Entry Commodity Charge for Distributed Gas



Site Name	GEMINI Name	Alias	LDZ System Entry Commodity Charge (p/kWh) Current Prices	LDZ System Entry Commodity Charge (p/kWh) Forecasted prices effective 1 April 2020
Bromham House Farm	BROMOS		-0.1061	-0.0963
Cannington Biomethane	CANNOS		-0.1096	-0.1000
Bishops Cleeve Biomethane	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0970	-0.0871
Enfield Biomethane	ENFDOS		-0.0565	-0.0458
Five Fords Biomethane	FIVEOS		-0.0161	-0.0045
Fraddon	FRADOS	Penare Farm	-0.0920	-0.0819
Frogmary Biomethane	FROGOS		-0.1061	-0.0963
Great Hele Biomethane	HELEOS	Nadder Lane	-0.0603	-0.0496
Helscott Farm	HELSOS		-0.1061	-0.0963
Rotherdale	ROTHOS	Vale Green 2	-0.0727	-0.0623
Spittles Farm	SPITOS	Bearley Farm	-0.1061	-0.0963
Springhill Biomethane	SPNGOS		-0.0515	-0.0406
Pennans Farm	TBC		-0.1061	-0.0963
Lords Meadow	TBC	Crediton	-0.1061	-0.0963
Northwick	NOCKOS		-0.0756	-0.0653
Avonmouth Wessex	WESXOS	Wessex Water	-0.1172	-0.1077
Willand	WILLOS		-0.1061	-0.0963
Wyke Farm	WYKEOS		-0.1122	-0.1025
Evercreech Biomethane	EVEROS		-0.1167	-0.1072
Trowbridge Biomethane	TRWBOS		-0.0515	-0.0526

The LDZ System Entry Commodity charge rates reflect the operating costs associated with the entry of the distributed gas and the benefits in terms of deemed NTS Exit and distribution network usage reductions. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis. There are currently 16 sites located within our network which have flowed gas and a further four expected to in the next 12 months. Should further sites be connected during the charging year a separate statement will be issued specific to those new connections.

## Further information

If you have any further queries or require any further details on this notice please contact Smitha Coughlan, Pricing and Regulation Manager on 02920 278 838 or [Smitha.Coughlan@wwutilities.co.uk](mailto:Smitha.Coughlan@wwutilities.co.uk).

