


Indicative Notice of Change to Transportation Charges



From 1st April 2019



1 November 2018



WALES&WEST
UTILITIES

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Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1st April 2019, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1st April 2019 will be published by 1st February 2019, 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

	Allowance for 2018/19 (£'m)	Forecast collection for 2019/20 at current charge rates (£'m)	Allowance for 2019/20 (£'m)	Delta required to be resolved (£'m)	Price change required
Transportation Revenue	383.8	378.4	417.4	39.0	10.3%

Allowed revenue (excluding exit capacity) has increased by £33.6m between 2018/19 and 2019/20. A number of factors have led to this increase and are outlined below.

Business Rate charges, which are a pass through item, increased significantly at the latest valuation effective 6th April 2017 and which Ofgem deemed efficient after the network operators challenged the rating authorities. This increased annual costs from £27.5m in 2016/17 to £38.7 in 2017/18. Due to the two year lag mechanism, WWU is only able to recover this increase in costs from 2019/20.

Additionally, the correction term which stems from under or over recovery of charges in T-2, was a large give back in 2018/19 as a result of an over collection of £11.9m in 2016/17. In 2017/18 WWU over collected its transportation revenue by £0.92m, resulting in a much lower reduction to revenue in 2019/20.

Exit Capacity

In July 2018 NTS published its final prices for October 2018 and forecast thereafter. These prices were significantly less than both the historically published indicatives and our allowances. Those lower costs ultimately work their way to the end consumer through cost true up mechanism, however this is on a two year lag basis.

This results in the collection of our allowances as intended, and a large give back to the shippers in T+2. What WWU intends to do is adjust its prices now so as to give this money back as it is being incurred, faster than our allowance intends.

WWU has already reduced its exit capacity charges from 4 December 2018 in order to pass on this benefit to our customers faster than would otherwise happen in the current price control.

For 2019/20 WWU will again seek to collect a lower exit capacity revenue figure than is currently allowed through the current price control.

	£'m 2018/19	£'m 2019/20	Commentary
Exit Capacity Allowance	45.5	57.5	The increase in allowance relates to a larger positive cost true up within revenue in 2019/20. In 2018/19 the cost true up reflected a half year of significantly increased costs compared to allowance (increases in NTS charges were seen from October 2016 onwards). In 2017/18 WWU was subject to a whole year of higher costs. This impacts revenue in 2019/20 due to the two year lag mechanism.
Revised Exit Allowance Collection target	35.8	49.0	WWU seeks to collect less revenue than allowed through the current price control. The purpose of this is to pass the benefit of significantly reduced NTS costs from 1 October 2018 onwards, back to its customers faster than would ordinarily occur through the two year true up mechanism.

As the price reduction in 2018/19 is effective December 2018, the total reduction sought was spread over four months. This meant a large % reduction in prices between November and December. As a result the price change from March 2019 to April 2019 is a significant increase. However, if an average over the year is taken, the % movements will reduce.

	Forecast collection in 2018/19 (£'m)	Forecast collection for 2019/20 at current charge rates (£'m)	Target collection in 2019/20 (£'m)	Delta required to be resolved (£'m)	Price change required
Exit Capacity Revenue	35.86	7.89	49.0	41.11	520.7%

If no price change had been implemented in December 2018, the required price change for 2019/20 would be as follows:

	Allowance for 2018/19 (£'m)	Forecast collection for 2019/20 at current charge rates (£'m)	Target collection for 2019/20 (£'m)	Delta required to be resolved (£'m)	Price change required
Exit Capacity Revenue	45.5	49.5	49.0	(0.5)	(1.0)%

Indicative Transportation Charges

In order to collect the estimated Allowed Revenue adjusted for a lower exit capacity collection, for 2019/20 of £466.4m, prices are forecast to increase by:

- Transportation Prices: average **10.3% increase**
- Exit Capacity Prices: average **520.7% increase**

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 increases required to maintain the collection apportionment required are:

Total Revenue				
20.8%				
Transportation Revenue			Exit Capacity	
10.3%			520.7%	
Capacity		Commodity	By Exit Zone	
System	Customer	67.9 %	SW1	600%
			SW2	445%
			SW3	404%
			WA1	410%
			WA2	3200%
8.9%	9.1%			

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.

This indicative price notification sets out the rates which would apply from 1st April 2018 reflecting these adjustments. The table below shows how exit capacity prices are expected to change from 1 April 2018 to 1 April 2019.

	Final Prices effective 1 April 2018	Final Prices effective December 2018	Movement (%)	Final Prices effective December 2018	Final Prices effective 1 April 2019	Movement (%)
Exit Capacity Unit Rates By Exit Zone	Pence per peak day kwh per day	Pence per peak day kwh per day		Pence per peak day kwh per day	Pence per peak day kwh per day	
SW1	0.0213	0.0018	-92%	0.0018	0.0126	600%
SW2	0.0341	0.0076	-78%	0.0076	0.0414	445%
SW3	0.0512	0.0093	-82%	0.0093	0.0469	404%
WA1	0.0333	0.0107	-68%	0.0107	0.0546	410%
WA2	0.0100	0.0001	-99%	0.0001	0.0033	3200%



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

	2018/9 (£'m)	2019/20 (£'m)	Change (£'m)	Change (%)	Commentary
Base Revenue	433.78	446.65	12.87	3%	£13.5m of additional inflation and £2.4m increase in exit capacity allowance is offset by the TOTEX outperformance shared with the consumer.
Exit Capacity Cost True Up	4.66	13.56	8.90	191%	Represents the cost true up from 2016/17 and 2017/18 respectively. 2018/19 includes a half years cost increase we received from NTS in 2016/17 compared to a full year in 2019/20.
Shrinkage Cost True Up	(6.13)	(5.34)	0.79	-13%	Decrease stems from a year on year decrease in shrinkage volumes.
Incentives	7.66	9.55	1.89	25%	£1m discretionary reward scheme revenue adjustment in 2019/20 which applies every three years.
Pass through	2.72	14.02	11.30	415%	Large increase in business rates costs in 17/18 flow into revenue in 2019/20 due to the two year lag.
'K'	(13.39)	(3.46)	9.93	-74%	2018/19 reflects the over collection that resulted from the change in October 2016 which were more significant than forecast.
Total Allowed Revenue	429.31	474.98	45.67	11%	
Of which					
Transportation	383.83	417.44	33.61	9%	
Exit Capacity	45.48	57.54	12.06	27%	The cost adjustment and increased base allowance significantly increase Exit Capacity allowance

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 2019. 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 19/20 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 2018 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.

Other direction due outside the PCFM

In October 2018 Ofgem formally notified networks that they are in receipt of supplier of last resort claim. Networks do not know the scale of this request; however expect a direction to be made in January which would impact charges levied from 1 April 2019. No assumption has been made for this.

RPI

Prices will be set using the November 2018 Treasury Forecast. This is not known at the time of indicative price setting therefore the forecast published in August 2018 has been used, the latest available Treasury forecast.

The final price change, to be published by 1st February 2019, will reflect the RPI percentage increase reported in the November 2018 Treasury publication.

Current and Indicative Charges from 1 April 2019

	Current Price (effective from 1 April 2018)	Indicative Prices effective 1 April 2019
LDZ SYSTEM COMMODITY CHARGES	Pence per kwh	
UP TO 73,200 KWH PER ANNUM	0.0316	0.0531
73,200 KWH - 732,000 KWH PER ANNUM	0.0276	0.0463
732,000 KWH PER ANNUM AND ABOVE	0.3201	0.5374
	x SOQ ^	
	-0.2775	-0.2775
SUBJECT TO A MINIMUM RATE OF	0.0023	0.0039
LDZ SYSTEM CAPACITY CHARGES	Pence per peak day kwh per day	
UP TO 73,200 KWH PER ANNUM	0.1863	0.2029
73,200 KWH - 732,000 KWH PER ANNUM	0.1616	0.1760
732,000 KWH PER ANNUM AND ABOVE	1.4472	1.5760
	x SOQ ^	
	-0.2513	-0.2513
SUBJECT TO A MINIMUM RATE OF	0.0137	0.0149
LDZ CUSTOMER CAPACITY CHARGES	Pence per peak day kwh per day	
UP TO 73,200 KWH PER ANNUM	0.0994	0.1084
73,200 KWH - 732,000 KWH PER ANNUM	0.0039	0.0043
732,000 KWH PER ANNUM AND ABOVE	0.0785	0.0856
	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	30.8940	33.7054
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	32.8954	35.8889

	Price effective from 1 April 2018 to December 2018	Price effective from December 2018 to 31 March 2019	Indicative Prices effective 1 April 2019
EXIT CAPACITY UNIT RATES BY EXIT ZONE	Pence per peak day kwh per day		
SW1	0.0213	0.0018	0.0126
SW2	0.0341	0.0076	0.0414
SW3	0.0512	0.0093	0.0469
WA1	0.0333	0.0107	0.0546
WA2	0.0100	0.0001	0.0033

Indicative LDZ System Entry Commodity Charge for Distributed Gas

Doing all we can to
PROVIDE A RELIABLE GAS SUPPLY & PROMOTE SUSTAINABILITY

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 2019
BROMHAM HOUSE FARM	BROMOS		-0.1012	-0.1603
CANNINGTON BIOMETHANE	CANNOS		-0.1046	-0.1639
BISHOPS CLEEVE BIOMETHANE	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0924	-0.1513
ENFIELD BIOMETHANE	ENFDOS		-0.0554	-0.0891
FIVE FORDS BIOMETHANE	FIVEOS		-0.0163	-0.0488
FRADDON	FRADOS	Penare Farm	-0.0875	-0.1462
FROGMARY BIOMETHANE	FROGOS		-0.1012	-0.1603
GREAT HELE BIOMETHANE	HELEOS	Nadder Lane	-0.0591	-0.0929
HELSCOTT FARM	HELSOS		-0.1012	-0.1603
ROTHERDALE	ROTHOS	Vale Green 2	-0.0710	-0.1052
SPITTLES FARM	SPITOS	Bearley Farm	-0.1012	-0.1603
SPRINGHILL BIOMETHANE	SPNGOS		-0.0505	-0.0840
PENNANS FARM	TBC		-0.1012	-0.1603
LORDS MEADOW	TBC	Crediton	-0.1012	-0.1603
NORTHWICK	NOCKOS		-0.0739	-0.1082
AVONMOUTH WESSEX	WESXOS	Wessex Water	-0.1119	-0.1714
WILLAND	WILLOS		-0.1012	-0.1603
WYKE FARM	WYKEOS		-0.1071	-0.1664
EVERCREECH BIOMETHANE	EVEROS		-0.1114	-0.1709

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 15 sites located within our network which have flowed gas and a further three 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.

