

Indicative Distribution Transportation Charges from 1 April 2009

1. Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1 April 2009, 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 2009 will be published by 1 February 2009, in accordance with the two months' notice requirement within the Uniform Network Code.

2. Indicative Distribution Transportation Charges

The current estimate from Wales & West Utilities is a decrease of 6.6% from the existing charging levels. There is some uncertainty as to the final adjustment at 1st April 2009 so the percentage reduction reflects our best estimate at the current time. The final adjustment to our current charges, to be published on 1st February 2009, will be influenced by our latest estimate of the under/over recovery brought forward from 2008/9 ("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 2009.

3. Reasons for the Indicative Level of Change to our Charges

3.1. 2009/10 PCR Outcome.

The 2009/10 Allowed Revenue includes the outcome of the PCR for this 5 year period. WWU intend to set charges that will recover 2009/10 Allowed Revenue, adjusted outcomes under incentives and K brought forward.

3.2. Annual Quantity Review (AQ Review)

Capacity income is now a larger proportion of total collected income. We experienced a noticeable fall in capacity income following the Annual Quantity (AQ) review in October 07. From the information we have received from xoserve there will be further reductions in consumers AQ, effective in October 2008. .

Our indicative charges assume that this trend will continue and so the adjustment to current charges reflects a further reduction in chargeable capacity of 4% following the AQ review in October 2009.

3.3 Shrinkage Gas costs

The Shrinkage Gas Incentive Mechanism allows recovery of the “day ahead” price for the shrinkage volume allowance given by Ofgem. The continuing volatility of gas prices makes it difficult to predict future “day ahead” gas prices. Consequently our final adjustment to our charging levels will be dependant on our view of Gas Index Prices at the time we produce the actual Notice of charges. For indicative purposes, we have used the most recent forward gas prices available to estimate the shrinkage incentive and this has lead to an increase of £1m over the incentive allowance given by Ofgem. This has been reflected in our indicative percentage reduction.

3.3. 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 an nil adjustment to our Allowed Revenue and this has been reflected in our indicative charges.

3.6. Projected K brought forward from 2008/9

The final exit capacity incentive for 2008/9 has been calculated and this has been included in our calculations.

MSRA for 2008/9 will not be finalised until June 2009 and this could have an impact on K brought forward into 2009/10. The final value of the shrinkage incentive will not be known until the end of March 09 and this will also affect K brought forward figure from 2008/9.

In addition, at the date of issuing this notice we do not have full information on the effect of the October 2008 AQ reduction on our Collected Income for the remainder of the year.

In summary, the 2008/9 Allowed Revenue is still forecast at this time and K will not be finalised until July 2009 in accordance with our reporting requirements.

4. System/Customer Charges : DNPC04

We are currently awaiting responses to our industry consultation paper (DNPC04) concerning the rebalancing of system and customer charges. For comparison purposes we include, in Annex A, the indicative prices for both the current and proposed split of system/customer charges.

5. Impact on Gas Supply Prices

The extent to which any transportation charge adjustment is passed through to consumers depends upon shippers and gas suppliers.

Annex A

Indicative Unit Charges From 1 April 2009 Based on Proposed Split (DNPC04) of 76% Systems Charge and 24% Customer Charge

LDZ Directly Connected Systems

	Capacity (ZCA)	Commodity (ZCO)
	pence per pk day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1385	0.0224
73,200 to 732,000 kWh per annum	0.1215	0.0220
Firm:- 732,000 kWh per annum and above	$0.6209 \times \text{SOQ}^{-0.1806}$	$0.1376 \times \text{SOQ}^{-0.2121}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.2941 \times \text{SOQ}^{-0.1806}$	$0.1376 \times \text{SOQ}^{-0.2121}$

LDZ Connected Systems (Cseps) Invoice: ADC

	Capacity	Commodity
	pence per pk day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1385	0.0224
73,200 to 732,000 kWh per annum	0.1215	0.0220
Firm:- 732,000 kWh per annum and above	$0.6567 \times \text{SOQ}^{-0.1939}$	$0.1313 \times \text{SOQ}^{-0.2131}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.3111 \times \text{SOQ}^{-0.1939}$	$0.1313 \times \text{SOQ}^{-0.2131}$

Note 1

The interruption charge represents 47.37% of the firm capacity rate as referred to in Mod proposal 0210

LDZ Customer Capacity Charges (CCA)

	pence per peak day kWh per day
Up to 73,200 Kwh per annum	0.0593
73,200 to 732,000 Kwh per annum	0.0022
732,000 Kwh per annum and above	$0.0470 \times \text{SOQ}^{-0.2100}$

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

	Fixed
Invoice	pence per day
Non-monthly read supply points	19.3901
Monthly read supply points	20.6463

Csep Administration Charge

	pence per day
Charge per supply point	0.1185

Optional LDZ Charge

Pence per peak day kWh per day
$902 \times [(SOQ)^{-0.834}] \times D + 772 \times (SOQ)^{-0.717}$

**Indicative Unit Charges From 1 April 2009 Based on Existing Split of
70.6% Systems Charge and 29.4% Customer Charge**

LDZ Directly Connected Systems

	Capacity (ZCA) pence per pk day kWh per day	Commodity (ZCO) pence per kWh
Up to 73,200 kWh per annum	0.1287	0.0208
73,200 to 732,000 kWh per annum	0.1129	0.0205
Firm:- 732,000 kWh per annum and above	$0.5769 \times SOQ^{-0.1806}$	$0.1278 \times SOQ^{-0.2121}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.2733 \times SOQ^{-0.1806}$	$0.1278 \times SOQ^{-0.2121}$

LDZ Connected Systems (Cseps) Invoice: ADC

	Capacity pence per pk day kWh per day	Commodity pence per kWh
Up to 73,200 kWh per annum	0.1287	0.0208
73,200 to 732,000 kWh per annum	0.1129	0.0205
Firm:- 732,000 kWh per annum and above	$0.6101 \times SOQ^{-0.1939}$	$0.1220 \times SOQ^{-0.2131}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.2890 \times SOQ^{-0.1939}$	$0.1220 \times SOQ^{-0.2131}$

Note 1

The interruption charge represents 47.37% of the firm capacity rate as referred to in Mod proposal 0210

LDZ Customer Capacity Charges (CCA)

	pence per peak day kWh per day
Up to 73,200 Kwh per annum	0.0726
73,200 to 732,000 Kwh per annum	0.0027
732,000 Kwh per annum and above	$0.0576 \times \text{SOQ}^{-0.2100}$

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

	Fixed
Invoice	pence per day
Non-monthly read supply points	23.7419
Monthly read supply points	25.2800

Csep Administration Charge

	pence per day
Charge per supply point	0.1185

Optional LDZ Charge

Pence per peak day kWh per day
$902 \times [(\text{SOQ})^{-0.834}] \times D + 772 \times (\text{SOQ})^{-0.717}$