


Indicative Notice of Change to Transportation Charges



From 1st April 2018



31st October 2017



WALES&WEST
UTILITIES

Contents

Introduction.....	3
Our Allowed Revenue and the impact of NTS charges	3
Indicative Transportation Charges	4
Reason for the price change	5
Allowed Revenue Movement.....	6
Uncertainties and assumptions	7
Chargeable Base	7
MODt through the PCFM	7
Other direction due outside the PCFM.....	7
RPI.....	7
Current and Indicative Charges from 1 April 2018	8
Indicative LDZ System Entry Commodity Charge for Distributed Gas	10
Further information.....	11

Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1st April 2018, 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 2018 will be published by 1st February 2018, in accordance with the two months' notice requirement within the Uniform Network Code.

Our Allowed Revenue and the impact of NTS charges

In May 2016 NTS published its final prices for October 2016 and forecast thereafter. These prices were significantly in excess of both the historically published indicatives and our allowances. The consequence of this is that those higher costs which were imposed and paid for by ourselves ultimately work their way to the end consumer through the lagged cost true up mechanism.

We continue to work with NTS, and the industry in delivering a more predictable and stable charging regime from the NTS. This should result in a reduction in the variability charged to ourselves and consequently passed on through our exit capacity charges two years later. It is expected this new regime for NTS will be effective from October 2019.

Where non controllable costs are forecast to vary from allowances set as part of the price control it is within the Networks ability to request Ofgem to amend future allowances to align with the revised cost profile. We have taken this action against the large increases in charges levied by the NTS.

Examples of the scale of the change to individual unit rates in Wales & West include:

Exit point	Price effective 1 October 2015	Price effective 1 October 2016	Movement (%)
Dowlais	0.0001	0.0128	12,800%
Dyffyn Clydach	0.0001	0.0098	9,800%
Gilwern	0.0001	0.0142	14,200%

Consequently since March 2016 we have been forecasting significant rises in Exit Capacity charges from April 2018 and a period of volatility thereafter. This has been communicated via both the Distribution Charging Managers Meetings chaired by the Joint Office and our published Revenue Forecasts (MOD186).

The impact on our forecast charges can be seen as:

	Forecast collection for 2018/19 (£'m)	Allowance for 2018/19 (£'m)	Delta required to be resolved (£'m)	Price change required
Transportation	374.81	380.83	6.02	1.6%
Exit Capacity	26.02	47.66	21.64	83.2%
TOTAL	400.83	428.49	27.66	6.9%

Indicative Transportation Charges

In order to collect the estimated Allowed Revenue for 2018/19 of £428.5m (including Exit Capacity Charges relating to NTS Exit Capacity costs of £47.7m), prices are forecast to increase by:

- Transportation Prices: average **1.6% increase**
- Exit Capacity Prices: average **83.2% 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				
6.9%				
Transportation Revenue			Exit Capacity	
1.6%			83.2%	
Capacity		Commodity	By Exit Zone	
System	Customer	24.5%	SW1	74.8%
			SW2	84.2%
			SW3	89.8%
			WA1	84.3%
			WA2	55.9%
0.8%	1.3%			

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.

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

	2017/18 (£'m)	2018/19 (£'m)	Change (£'m)	Change (%)	Commentary
Base Revenue	410.64	433.04	22.40	5.5%	£15.3m of additional inflation and £9m increase in exit capacity allowance is offset by the TOTEX outperformance shared with the consumer.
Exit Capacity Cost True Up	-5.18	4.66	9.84	-189.9%	Represents the cost true up from 2015/16 and 2016/17 respectively. 2018/19 therefore includes half a year's cost increase we received from NTS in 2016/17.
Shrinkage Cost True Up	-6.16	-6.13	0.03	-0.5%	In line with prior year
Incentives	7.59	7.65	0.06	0.9%	In line with prior year
Pass through	2.76	2.00	-0.76	-27.6%	Lower business rate costs in 2016/17 reduce the pass through in 2018/19.
'K'	-6.42	-12.73	-6.31	98.2%	2018/19 reflects the over collection that resulted from the change in October 2016 which were more significant than forecast.
Total Allowed Revenue	403.23	428.49			
Of which					
Transportation	379.43	380.83	1.40	0.4%	Transportation Revenue remains broadly flat
Exit Capacity	23.80	47.66	23.86	100.3%	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 2018. 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 18/19 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 2017 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 2017 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 2018. No assumption has been made for this although it is anticipated that the maximum adjustment would not exceed £2m in aggregate.

RPI

Prices will be set using the November 2017 Treasury Forecast. This is not known at the time of indicative price setting therefore the forecast published in August 2017 has been used, the latest available Treasury forecast.

The final price change, to be published by 1st February 2018, will reflect the RPI percentage increase reported in the November 2017 Treasury publication.

Current and Indicative Charges from 1 April 2018

	Current Price (effective from 1 April 2017)	Indicative Prices effective 1 April 2018
LDZ SYSTEM COMMODITY CHARGES	Pence per kwh	
UP TO 73,200 KWH PER ANNUM	0.0252	0.0314
73,200 KWH - 732,000 KWH PER ANNUM	0.0220	0.0274
732,000 KWH PER ANNUM AND ABOVE	0.2555	0.3181
	x SOQ ^	
	-0.2775	-0.2775
SUBJECT TO A MINIMUM RATE OF	0.0018	0.0022

LDZ SYSTEM CAPACITY CHARGES	Pence per peak day kwh per day	
UP TO 73,200 KWH PER ANNUM	0.1874	0.1889
73,200 KWH - 732,000 KWH PER ANNUM	0.1626	0.1639
732,000 KWH PER ANNUM AND ABOVE	1.4559	1.4675
	x SOQ ^	
	-0.2513	-0.2513
SUBJECT TO A MINIMUM RATE OF	0.0138	0.0139

LDZ CUSTOMER CAPACITY CHARGES	Pence per peak day kwh per day	
UP TO 73,200 KWH PER ANNUM	0.0992	0.1005
73,200 KWH - 732,000 KWH PER ANNUM	0.0039	0.0040
732,000 KWH PER ANNUM AND ABOVE	0.0783	0.0793
	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	30.8323	31.2331
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	32.8297	33.2565

EXIT CAPACITY UNIT RATES BY EXIT ZONE	Current Price effective from 1 April 2017		Indicative Prices effective 1 April 2018	
	Pence per peak day kwh per day			
SW1	0.0119		0.0208	
SW2	0.0177		0.0326	
SW3	0.0256		0.0486	
WA1	0.0172		0.0317	
WA2	0.0068		0.0106	

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 2018
BROMHAM HOUSE FARM	BROMOS		-0.0679	-0.0966
CANNINGTON BIOMETHANE	CANNOS		-0.0712	-0.1000
BISHOPS CLEEVE BIOMETHANE	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0539	-0.0878
ENFIELD BIOMETHANE	ENFDOS		-0.0250	-0.0547
FIVE FORDS BIOMETHANE	FIVEOS		0.0086 (Charge)	-0.0120
FRADDON	FRADOS	Penare Farm	-0.0545	-0.0830
FROGMARY BIOMETHANE	FROGOS		-0.0593	-0.0966
GREAT HELE BIOMETHANE	HELEOS	Nadder Lane	-0.0250	-0.0547
HELSCOTT FARM	HELSOS		-0.0679	-0.0966
NORTHWICK	NOCKOS		-0.0481	-0.0695
ROTHERDALE	ROTHOS	Vale Green 2	-0.0361	-0.0666
SPITTLES FARM	SPITOS	Bearley Farm	-0.0679	-0.0966
SPRINGHILL BIOMETHANE	SPNGOS		-0.0250	-0.0462
AVONMOUTH WESSEX	WESXOS	Wessex Water	-0.0779	-0.1073
WILLAND	WILLOS		-0.0679	-0.0966
WYKE FARM	WYKEOS		-0.0712	-0.1025
LORDS MEADOW	TBC	Crediton	-0.0679	-0.0966
PENNANS FARM	TBC		-0.0679	-0.0966

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 Robert Wigginton, Pricing and Regulation Manager on 02920278838 or Robert.wigginton@wwutilities.co.uk.

