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31st October 2012

Dear Sirs

Indicative Distribution Transportation Charges from 1 April 2013

1. Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1 April 2013, 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 2013 will be published by 1 February 2013, in accordance with the two months' notice requirement within the Uniform Network Code.

2. Indicative Distribution Transportation Charges

The final allowed revenues for 2013/14 will not be known until at least the publication of the Ofgem Final Proposals for RIIO GD1 (December 17th 2012). Therefore, networks have been asked by the industry to publish indicative charge rates that reflect a percentage price range based on the following two scenarios:

- The Initial Proposals as published by Ofgem in July 2012
- The Wales & West Utilities Business Plan submission

The following table illustrates the total Allowed Revenue movements and cost per supply point for the two scenarios outlined above.

Please note, the numbers below include an assumption for inflation of 2.4% from 2012/13 to 2013/14 and exclude the new Exit Capacity charges:

	2012/13 latest forecast	2013/14 based on Initial Proposals	2013/14 based on WWU Business Plan submission
Total Allowed Revenues £m	£350.2m	£353.7m	£385.9m
Number of Supply points	2.5m	2.5m	2.5m
WWU Charge per supply point	£140.1	£141.5	£154.4
% Change from 2012/13 including inflation at 2.4%		1%	10%

24 hour gas escape number
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*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Coedkernew, Newport NP10 8FZ
Registered in England and Wales: No. 5046791

In order to collect the Allowed Revenue for 2013/14 based on the Initial Proposals, Transportation charges, excluding Exit Capacity charges (paragraph 5 below refers), would increase by 6.2%.

To collect the Allowed Revenue for 2013/14 based on the WWU Business Plan, Transportation charges, excluding Exit Capacity Charges would increase by 15.9% from 1st April 2013.

The percentage increase in transportation prices is higher than the percentage movement in Allowed Revenue between 2012/13 and 2013/14 because we calculate LDZ Capacity prices based on Peak day Capacity and as this falls year on year the transportation prices need to increase to compensate for the reduced Peak day Capacity in order to recover the same amount of Allowed Revenue. The percentage increase in transportation prices resulting from the reduction in Peak day Capacity is 5.2%. A further explanation of this is covered within section 4 of this note.

The final price increase, to be published on 1st February 2013, will include the Allowed Revenue figure from the Final Proposals and our latest assessment of the under/over recovery brought forward from 2012/13 ("K"). In addition, the price increase will need to reflect our view of any future change in capacity income following the Annual Quantity review, effective from 1st October 2013.

Indicative transportation prices from 1st April 2013, reflecting a 6.2% increase and 15.9% increase are shown at Annex A.

3. Reasons for the Price Increase

Price Increase Components	Ofgem Initial Proposals	WWU Business Plan
Core Allowed Reduction/Increase at 2012/13 Prices	- 2.2%	7.3%
Income Shortfall	5.2%	5.2%
Increase to A.R after applying Inflation (2013/14 Prices)	2.4%	2.6%
K + DRS	0.8%	0.8%
Indicative Change to Prices at 1 st April 2013	6.2%	15.9%

Core Allowed at 2012/13 prices reflects the percentage movement between the Initial Proposals/Business Plan Allowed Revenues and the estimated Allowed Revenue for 2012/13.

The income shortfall reflects the reduction in revenue arising from the SOQ (Peak day Capacity) of 6.5% (estimate) following the Oct 12 AQ Review and a further forecast reduction in Peak day Capacity of 3% following the Oct 13 AQ Review.

Inflation is based on the estimated RPI increase of 2.4% for 2013/14 taken from the latest HM Treasury RPI forecast.

K represents an estimated small under collection of Allowed Revenue at the end of 2012/13 brought forward to 2013/14 and the DRS which we were awarded in 2011/12 (recoverable two years later in 2013/14).

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%). In line with the latest indications from Xoserve peak day capacity (which translates to capacity income) is estimated to fall by 6.5% following the Oct 12 AQ Review. By the time the final transportation price adjustment is made we will factor in the actual outcome of the Oct 12 AQ Review.

Our indicative price increase assumes a further fall of 3% in peak day capacity from 1st October 2013 but this will be reviewed before the final transportation price adjustment is calculated.

4.2 Incentives/Allowances

Apart from the discretionary reward of £1.2m which was awarded to us in 2011/12 (recoverable in 2013/14), we have not included any incentives/allowances in the price calculation.

4.3 Projected K brought forward from 2012/13

Some Allowed Revenue adjusting items and incentive performances will not be finalised until July 2013 and this could have an impact on K brought forward from 2012/13.

In addition, at the date of issuing this notice we do not have the final confirmation of the effect of the October 2012 AQ reduction on our Collected Income for the remainder of the year.

In summary, the 2012/13 Allowed Revenue is still forecast at this time and K will not be finalised until July 2013 in accordance with our reporting requirements.

4.4 Inflation

The rate of inflation may change between now and the date the Final Transportation prices are published on 1st February 2013. This will affect the overall level of Allowed Revenue and the consequent price adjustment.

5. Exit Capacity Charges

We have used the Exit Capacity prices from 1st October 2012 published by National Grid (National Transmission) on 1st May 2012 for the 6 month period to 30th September 2013 and the indicative Exit Capacity prices from 1st October 2013, published by National Grid (National Transmission) in October 12, for the remainder of the year.

In calculating Exit Capacity charges at Exit Zone level we have assumed similar reductions in Peak day Capacity to those used in calculating the other transportation charges. We have further assumed that our Exit Capacity bookings will be the same as those used for our Business Plan submission. The existing prices and indicative prices are shown at Annex A.



6. Impact on Gas Supply Prices

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

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

John Edwards
Pricing Manager

Annex A

Indicative Unit Charges From 1 April 2013

A. LDZ Charges From 1st April 2013: Initial Proposals v Business Plan

LDZ Directly Connected Systems and Cseps: Capacity Charge (ZCA)

Capacity	Initial Proposals	Business Plan
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.1750	0.1909
73,200 to 732,000 kWh per annum	0.1518	0.1656
732,000 kWh per annum and above	$1.3591 \times \text{SOQ}^{-0.2513}$	$1.4827 \times \text{SOQ}^{-0.2513}$

LDZ Directly Connected Systems and Cseps: Commodity Charge (ZCO)

	Initial Proposals	Business Plan
	pence per kWh	pence per kWh
Up to 73,200 kWh per annum	0.0289	0.0315
73,200 to 732,000 kWh per annum	0.0251	0.0274
732,000 kWh per annum and above	$0.2922 \times \text{SOQ}^{-0.2775}$	$0.3187 \times \text{SOQ}^{-0.2775}$

LDZ Customer Capacity Charges (CCA)

	Initial Proposals	Business Plan
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.0921	0.1005
73,200 to 732,000 kWh per annum	0.0036	0.0039
732,000 kWh per annum and above	$0.0727 \times \text{SOQ}^{-0.2100}$	$0.0793 \times \text{SOQ}^{-0.2100}$

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

	Initial Proposals	Business Plan
	pence per day	pence per day
Non-monthly read supply points	29.8824	32.5995
Monthly read supply points	31.8183	34.7115

B. Indicative ECN (Exit Capacity Charges) From 1 April 2013

Exit Zone	Existing Prices (p/kWh/day)	Indicative Prices 1st April 2013 (p/kWh/day)
SW1	0.0079	0.0067
SW2	0.0214	0.0199
SW3	0.0225	0.0221
WA1	0.0257	0.0240
WA2	0.0033	0.0018