

Wales & West Utilities

Indicative Distribution Transportation Charges from 1 October 2006

1. Introduction

This notice provides indicative levels of the charges that will apply from 1 October 2006, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of new distribution transportation charges from 1 October is expected to be published by 1 August, in line 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 circa 4 % increase from the existing charging levels.

There is still uncertainty around the level of change that will be necessary at October and the figure provided here is an estimate. The potential variation between the indicative and final price change announced could be two percentage points or more in either direction.

3. Reasons for the Indicative Level of Change by Wales & West Utilities

Transportation volumes for 2006/7 are currently expected to be broadly similar to 2005/6 and the previous 2 years. Outside of the volume driver within the Allowed revenue calculation, there are 2 main factors behind the indicative level of change for October, which are explained below.

3.1. Cost of Cumulo Rates

Cumulo rates are a tax levied on Gas Transporters (and other utilities) by central government. The level of these rates is largely outside of the transporters' control and as such they are allowed as a cost pass-through item within the price control allowed revenue.

3.2. Mains Replacement Incentive

The distribution price controls are based upon an assumed level of cost each year for replacing distribution mains in each network. Where the gas transporter carries out a different level of mains replacement activity or where the activity is undertaken either more or less efficiently than assumed within the price control, this gives rise, through sharing factors, to a variation in the allowed revenue. The level of replacement for 2006/7 is above that for 2005/6 and the current forecast is for a higher adjustment to revenue in 2006/7 compared to 2005/6.

4. Uncertainties around Indicative Transportation Charges

The introduction of network specific charges has increased the level of uncertainty around the indicative charges by removing the smoothing that a national charge effectively provided. The main causes of potential variation between the final price changes and the indicative figures shown are:

- The price changes depend upon forecasts of the throughput volumes, load factors and customer numbers by sector for the price control year. These forecasts are updated annually in May each year and so can be taken into account in determining the definitive level of charges to apply from October. The forecasts underlying the present indicative charges are those forecasted within WWU at March 2006.
- If the level of gas demand is substantially different from that expected over the next three months, this will change the forecast over- or under-recovery position for the price control year;
- The definitive mains replacement incentive position for 2005/06 will not be known until July. This, together with the mains replacement performance over the next three months and any changes to the forecast mains replacement incentive position for the price control year, will affect the estimated price control revenue for 2006/07.

5. Structure of Distribution Transportation Charges

No change to the structure of the charges is proposed this year. The percentage change would apply uniformly to the standard LDZ system capacity and commodity charges and customer charges. Other charges, including administration charges and the Optional LDZ charge, which are determined on an individual cost-reflective basis, are expected to remain unchanged.

We are currently working through the OFGEM document headed "Conclusions on the review of the structure of gas distribution charges" which was published on 28th Feb 2006. Any changes that fall out of this work will be subject to the relevant consultations with the industry.

6. Impact on Gas Supply Prices

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