

Indicative Distribution Transportation Charges from 1 April 2011

1. Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1 April 2011, 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 2011 will be published by 1 February 2011, in accordance with the two months notice requirement specified in the Uniform Network Code.

2. Indicative Distribution Transportation Charges

We are estimating that current transportation prices in Wales & West Utilities will increase by 14%. There is some uncertainty regarding the final adjustment at 1st April 2011 so the percentage increase reflects our best estimate at this time. The final adjustment to our current prices, to be published on 1st February 2011, will be influenced by our latest estimate of the under/over recovery brought forward from 2010/11 ("K"), as well as our performance against a range of incentives and allowances including shrinkage gas, exit capacity, emissions 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 2011.

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

3.1. 2011/12 PCR Outcome.

The 2011/12 Allowed Revenue reflects the outcome of the PCR. WWU intend to set prices that will recover 2011/12 Allowed Revenue, adjusted outcomes under incentives and K brought forward.

3.2. Annual Quantity Review (AQ Review)

Capacity income, which is based on peak day capacity (Supply Point SOQs), represents a large proportion of total collected income (96%). A reduction in peak day capacity has a similar effect on capacity income. We experienced a noticeable fall in peak day capacity following the Annual Quantity (AQ) review in October 2009 (3.2%). The latest information from xoserve indicates that following the October 2010 AQ review, peak day

capacity for the network is likely to fall by 5%.

Our indicative price increase assumes that we will continue to see peak day capacity fall following these Reviews and so we are estimating a reduction in peak day capacity of 4.5% from October 2011 in addition to the estimated 5% reduction from 1st October 2010.

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 prices will be dependant on our view of Gas Index Prices at the time we produce the actual Notice of charges

3.4 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 a nil adjustment to our Allowed Revenue and this has been reflected in our indicative prices.

3.5. Projected K brought forward from 2010/11

Some Allowed Revenue adjusting items and incentive performances will not be finalised until July 2011 and this could have an impact on K brought forward from 2010/11.

In addition, at the date of issuing this notice we do not have the final confirmation of the effect of the October 2010 AQ reduction on our Collected Income for the remainder of the year.

In summary, the 2010/11 Allowed Revenue is still forecast at this time and K will not be finalised until July 2011 in accordance with our reporting requirements.