

## **Indicative Distribution Transportation Charges from 1 April 2015**

### **1. Introduction**

This notice provides indicative levels of gas transportation charges that will apply from 1 April 2015, 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 2015 will be published by 1 February 2015, in accordance with the two months' notice requirement within the Uniform Network Code.

### **2. Indicative Distribution Transportation Charges**

In order to collect the estimated Allowed Revenue for 2015/16 of £375.8m, (excluding Exit Capacity charges - paragraph 6 below refers), transportation prices are forecast to increase by 0.3%.

The final price increase, to be published on 1<sup>st</sup> February 2015, will reflect the RPI percentage increase reported in the November 2014 Treasury publication, and our latest view of any future change in capacity income following the AQ review, effective from 1<sup>st</sup> October 2015.

Current transportation prices and indicative transportation prices from 1<sup>st</sup> April 2015, reflecting a 0.3% increase, are shown at Annex A.

### **3. Reasons for the Price Increase**

Price Increase Components	(%)
Income surplus compared to Base Allowed Revenue at 2014/15 prices	-2.5%
Inflation for 2015/16	3.1%
Incentives/Innovation Allowance	1.7%
Shrinkage Cost Adjustment	-0.3%
K Adjustment	-1.7%
Total Indicative Change to Prices at 1 <sup>st</sup> April 2014	0.3%

The income surplus of -2.5% reflects the surplus revenue compared to Base Allowed Revenue before applying inflation for 2015/16.

Inflation is based on the estimated RPI increase of 3.1% for 2015/16.

The incentives relate to out-performance in 2013/14 but are not added to Allowed Revenue until two years later in 2015/16. The network innovation allowance is a forecast for 2015/16. It is estimated that these components will result in a 1.7% increase to transportation prices.

The actual shrinkage costs incurred in 2013/14 were less than the allowance given by Ofgem for 2013/14. This 'true up' is not adjusted through Allowed Revenue until two years later in 2015/16. The impact on transportation prices is a reduction 0.3%.

In a similar way to incentives and cost adjustments the 'K' over/under recovery is included in Allowed revenue two years later. The 'K' adjustment of 1.7% therefore relates to the over-recovery of Allowed Revenue for 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 a similar reduction in capacity income) is estimated to fall by 2.7% following the Oct 14 AQ Review. By the time the final transportation price adjustment is made we will factor in the actual outcome of the Oct 14 AQ Review.

Our indicative price increase assumes a further fall of 2.7% in peak day capacity from 1<sup>st</sup> October 2015 but this will be reviewed before the final transportation price adjustment is calculated.

### **4.2 Inflation**

The final inflation figures to use for 2015/16 will not be known until November 2014 when HM Treasury publish their RPI forecast for calendar years 2015 and 2016. This will affect the overall level of Allowed Revenue which will lead to a change to the price adjustment.

## 5. Exit Capacity Charges

The Indicative Exit Capacity price represents a reduction of 21.8% in overall exit capacity charges. The reduction of 21.8% is analysed in the following table:

Price Increase Components	(%)
Income shortfall compared to Ofgem Allowance at 2015/16 prices	5.1%
Cost 'True Up'	-26.0%
K Adjustment	-0.9%
Total Indicative Change to Prices at 1 <sup>st</sup> April 2015	21.8%

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 from 1<sup>st</sup> October 2015 will be the same as the capacity bookings we have submitted for the gas year commencing 1<sup>st</sup> October 2014. The existing prices and indicative prices are shown at Annex A

## 6. Indicative LDZ System Entry Commodity Charge for Distributed Gas

The indicative charge for the entry point at Springhill Nurseries is shown in the table below.

Indicative Entry Point	Distribution Network	LDZ System Entry Commodity Charge (p/kWh)	Charge/Credit (-)
Springhill Nurseries	Wales & West	-0.0074	Credit
Wesxos	Wales & West	-0.0680	Credit

## 7. Impact on Gas Supply Prices

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

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## Annex A

### Indicative Unit Charges From 1 April 2015

#### **A. LDZ Charges From 1<sup>st</sup> April 2015: Current Prices v Indicative Prices**

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

Capacity	Current Prices	Indicative Prices From 1 <sup>st</sup> Apr 2015
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.1904	0.1910
73,200 to 732,000 kWh per annum	0.1653	0.1658
732,000 kWh per annum and above	$1.4793 \times \text{SOQ}^{-0.2513}$	$1.4842 \times \text{SOQ}^{-0.2513}$
Subject to a minimum rate of	0.0140	0.0140

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

	Current Prices	Indicative Prices From 1 <sup>st</sup> Apr 2015
	pence per kWh	pence per kWh
Up to 73,200 kWh per annum	0.0291	0.0292
73,200 to 732,000 kWh per annum	0.0253	0.0254
732,000 kWh per annum and above	$0.2942 \times \text{SOQ}^{-0.2775}$	$0.2952 \times \text{SOQ}^{-0.2775}$
Subject to a minimum rate of	0.0020	0.0020

##### **LDZ Customer Capacity Charges (CCA)**

	Current Prices	Indicative Prices From 1 <sup>st</sup> Apr 2015
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.1008	0.1011
73,200 to 732,000 kWh per annum	0.0039	0.0039
732,000 kWh per annum and above	$0.0796 \times \text{SOQ}^{-0.2100}$	$0.0799 \times \text{SOQ}^{-0.2100}$

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

	<b>Current Prices</b>	<b>Indicative Prices From 1<sup>st</sup> Apr 2015</b>
	<b>pence per day</b>	<b>pence per day</b>
Non-monthly read supply points	32.7152	32.8232
Monthly read supply points	34.8346	34.9496

**B. Indicative ECN (Exit Capacity Charges) From 1 April 2015**

<b>Exit Zone</b>	<b>Current Prices (p/kWh/day)</b>	<b>Indicative Prices From 1<sup>st</sup> Apr 2015 (p/kWh/day)</b>
SW1	0.0083	0.0065
SW2	0.0248	0.0195
SW3	0.0284	0.0221
WA1	0.0298	0.0228
WA2	0.0018	0.0015