June 2017

Allowed Revenue, presentation for DNCMF

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Objectives

Provide an overview/recap of how Network price control is set under RIIO to deliver a safe reliable flow of gas.

- **How is allowed revenue calculated**
- **How is revenue recovered**

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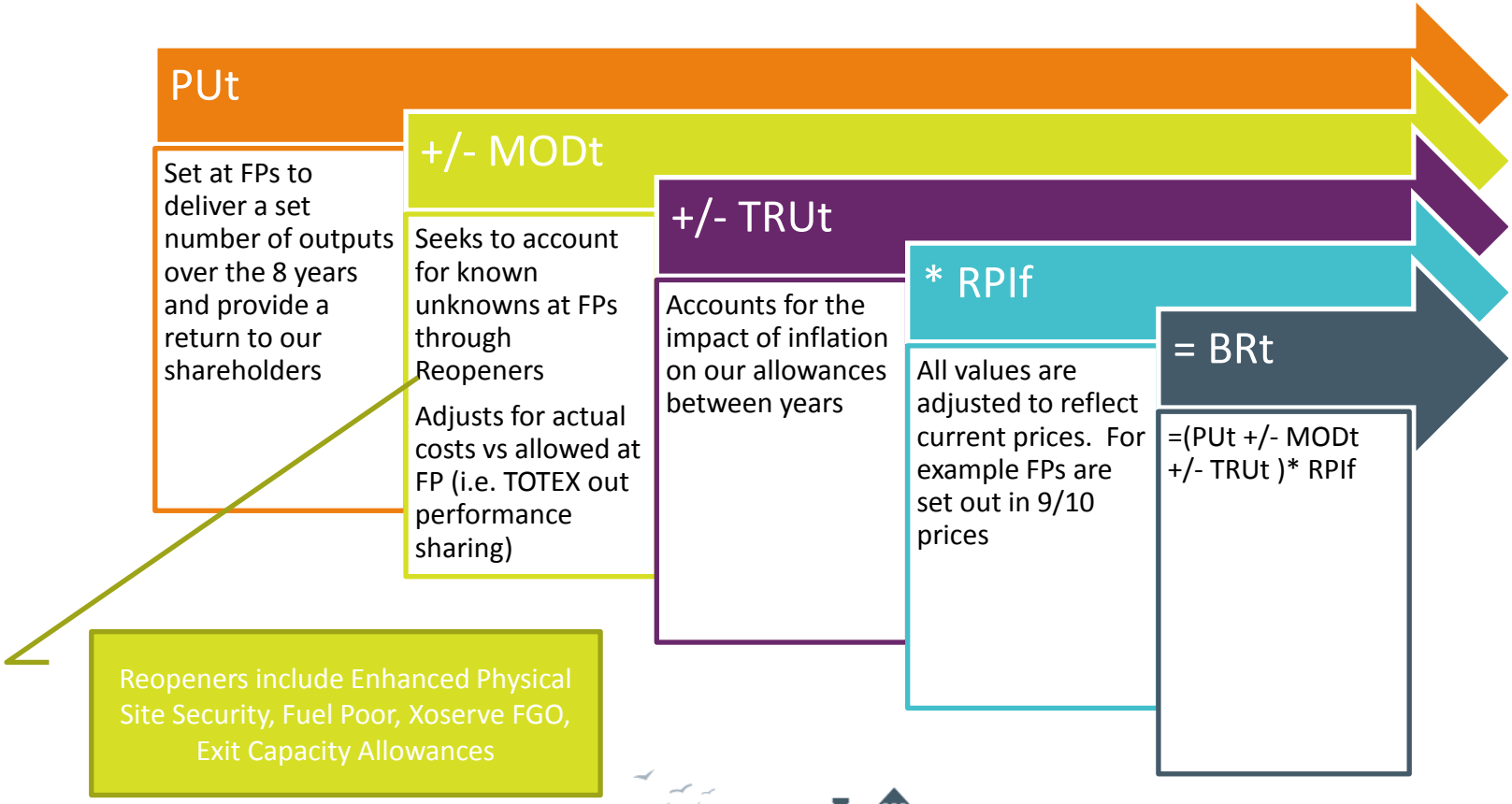
Price Controlled Revenues

Ofgem's regulation of us, as a regional monopoly in the GD1 Price Control utilises the framework 'RIIO':

	Description	How it impacts our Allowed Revenue to incur efficient costs
R	REVENUE	Forecast Allowed Revenue under two distinct 'pots' – Transportation and Exit Capacity
I	INCENTIVES	Opportunities in our licence to benefit from strong performance or be penalised for poor performance
I	INNOVATION	Opportunities in our licence to invest in new and innovative technologies for the long term benefit of consumers
O	OUTPUTS	Our revenue starts off considering the efficient base allowance to deliver the outputs set out in Final Proposals. Consumers benefit when controllable spend comes below this allowance. Networks are to an extent protected from those costs which are considered outside our control (pass through)

Base Revenue



Pass through costs

Costs we are held whole on (when taking one year with another)

Badged under term Pass Through (Pt)	Cost True Up

2 year cash flow exposure/ protection

Licence fee	Business Rates	Legacy Pension (NTS)	Misc.	Shrinkage	Exit Capacity

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Incentives – payment by results!

Incentive	Term	What is it
Broad Measure of Customer Satisfaction Revenue Adjustment	**BM_t**	Relates to Customer Satisfaction. Includes a penalty for poor performance. Includes incentive for strong Stakeholder performance. Linked to Base Revenue
Environmental Emissions Incentive Rev Adjustment	**EEI_t**	We benefit from lower Leakage than planned. For example by accelerating the highest risk mains replacement
Discretionary Reward Scheme Rev Adjustment	**DRS_t**	Awarded every other year. At the discretion of Ofgem following a submitted business case of what the network has done over and above its statutory obligations.
Network Innovation Allowance Rev Adjustment	**NIA_t**	Ofgem understand that new technology may benefit the consumer therefore sought to meet 90% of the costs of innovation up to a cap of 0.5%*BR with max 25% Internal spend
Shrinkage Incentive Adjustment	**$SHRR_t$**	Similar to EEIt but for the wider measure of Shrinkage.
Exit Capacity Allowance Adjustment	**ExC_t**	Ofgem provided for required flat capacity bookings to operate the network in a 1:20 at FPs. If we book less than this due to better management we gain by the reduction * the indicative price at T-3 from NTS.

How do we know how to calculate these?

Our Licence includes the basis of calculation for each term.

For example for Exit Capacity Eit

$$EI_t = \frac{IQI}{1 - CT_t} \times [EIT_t - EDC_t]$$

Where:

$$EIT_t = \frac{\sum_{all\ v}\left[\left(\sum_{1\ Oct-31\ Mar} NTSIChE_{v,t,d} \times NTSTVE_{v,t}\right) \times \frac{Y_t}{P_t}\right]}{100}$$

$$EDC_t = \frac{\sum_{all\ v}\left[\left(\sum_{1\ Oct-31\ Mar} NTSIChE_{v,t,d} \times NTSMAE_{v,t}\right) \times \frac{Y_t}{P_t}\right]}{100} + NTSOC_t - NTSBB_t$$

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Exit Capacity

From RIIO GD1 Networks gained an agency relationship to NTS (Previously NTS billed shippers directly). We incur the cost of NTS Exit Capacity and charge our end customers a charge that seeks to recover that cost.
It has a similar approach to calculating allowed revenue.

- Terminal
- LDZ boundary
- 900(17) Existing pipeline (with distance marker)
- 900 Pipeline diameter (mm)
- (17) Length (km)
- a Denotes a crossing point between LDZs
- Proposed pipeline
- Offtake
- Storage facility
- Existing compressor
- New compressor or compressor modifications
- Alternative route
- Uprating of pipelines
- Approved emissions projects

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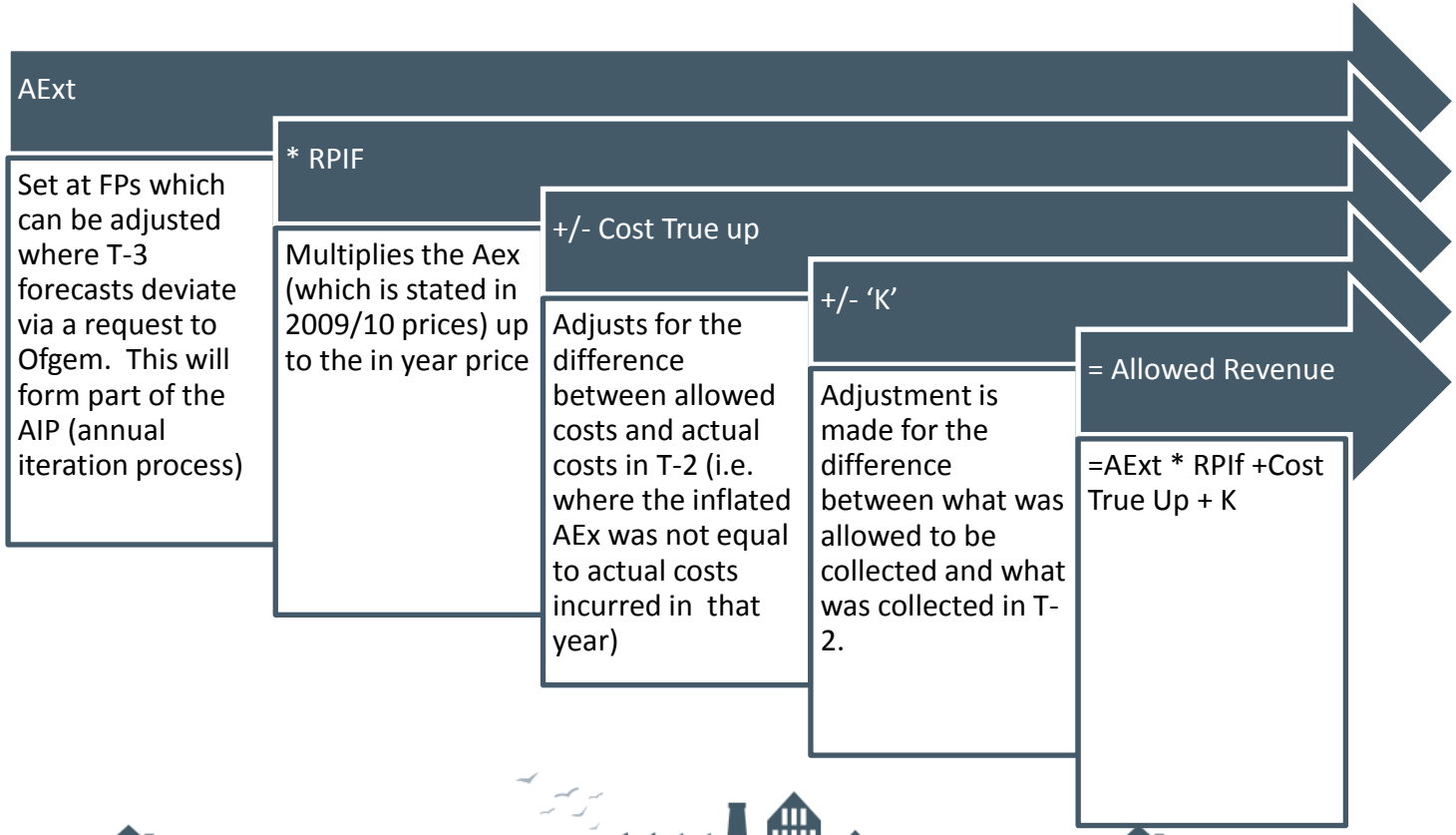
Exit Capacity



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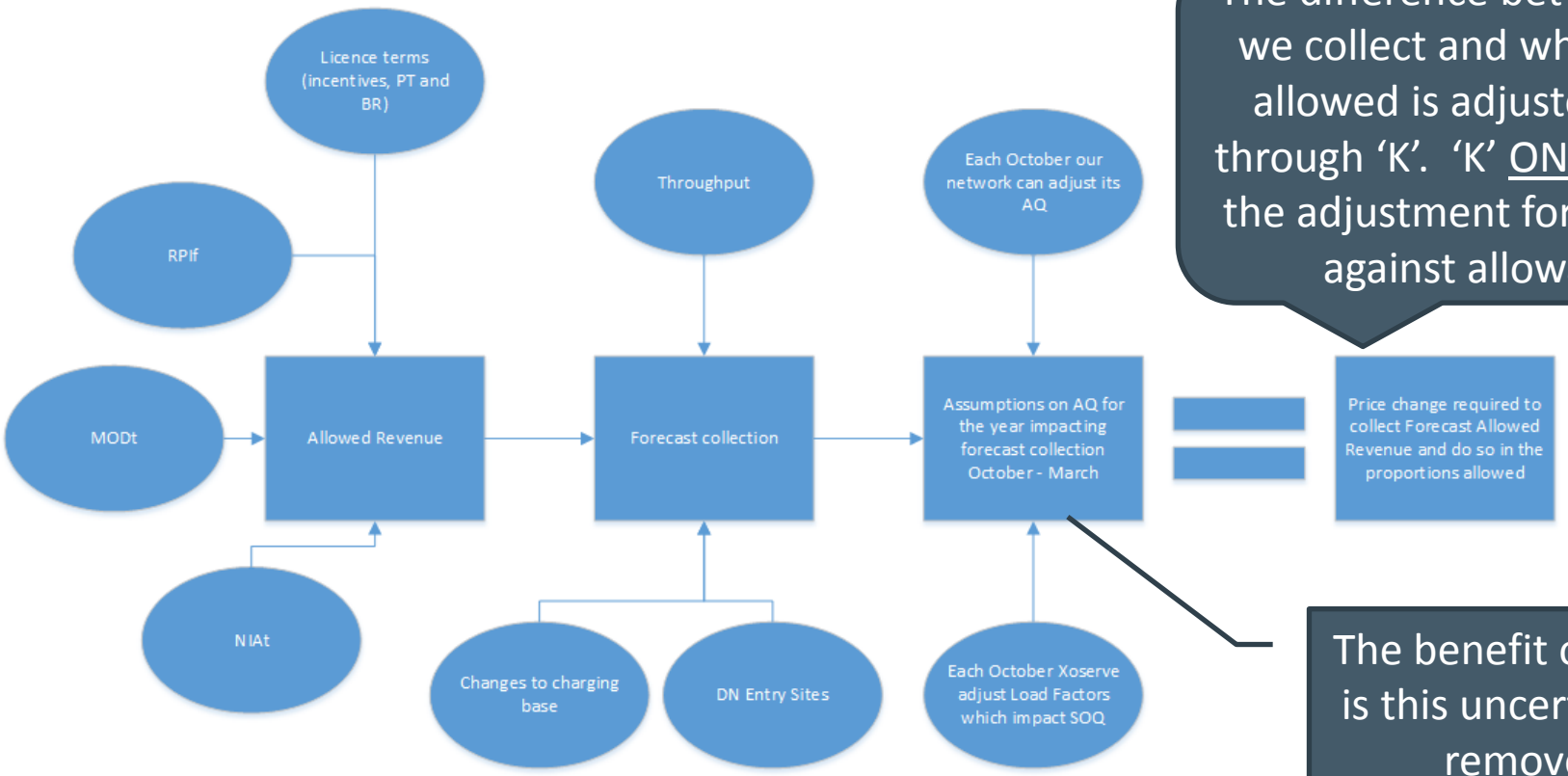
How do we set the price?



The difference between what we collect and what we are allowed is adjusted in T+2 through 'K'. 'K' ONLY refers to the adjustment for collection against allowance.

The benefit of Nexus is this uncertainty is removed

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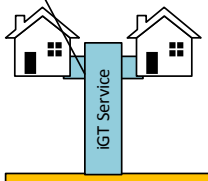
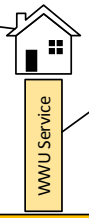
How do we collect our Income (simplified)

Only 5% of our income is variable, relating to the actual flow of gas. This is the Commodity Charge and recovers the incremental costs of gas flow such as compressor costs. 95% of costs therefore are capacity driven and essentially fixed

26.8% of our revenue comes from the Customer Capacity Charge. This recovers the cost of building and maintaining service pipes up to the ECV 9Emergency Control Valve)

iGT (independent Gas Transporters) customers do not need to pay customer capacity but the iGT must pay a Connected System Entry Point (CSEP) admin charge





WWU Gas Main

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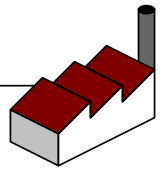
68.2% of our revenue comes from the System Capacity Charge. This recovers the cost of building and maintaining our gas main network

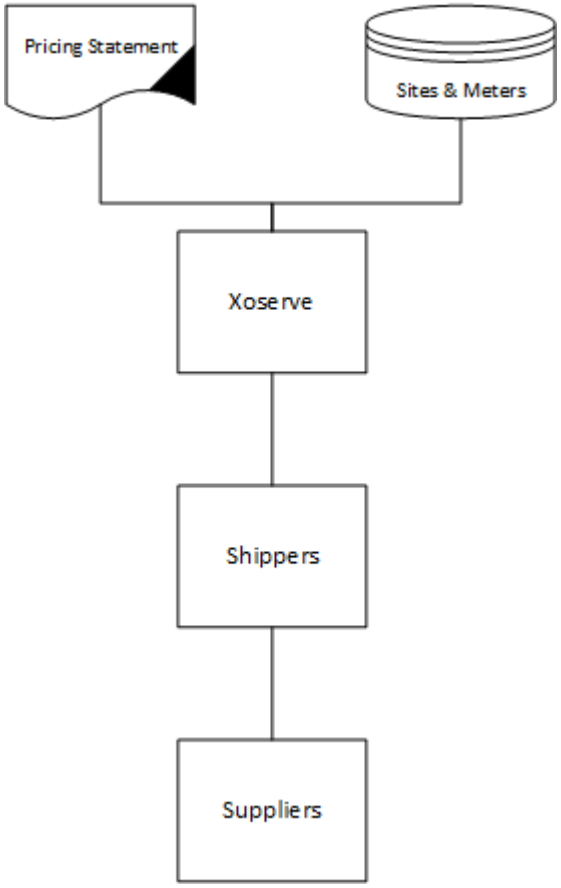
DN Entry sites will receive a unit credit (or debit) for injecting gas into our network. The higher up the network and the more gas they flow, the higher the rate they receive.



WWU Service

NTS Gas Main

Our Exit Capacity charge is levied to recover the cost we incur for the capacity to offtake gas from the NTS. We levy this at a charge specific to five 'Exit Zones'. The end consumer receives no direct charge from the NTS for the transport of gas from GB Entry point to GDN Entry point



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Questions / Feedback

Useful links	Link
DN Pricing	http://www.gasgovernance.co.uk/DNcharges
Charging Statements	http://www.gasgovernance.co.uk/dnchargingstatement
MOD186	http://www.gasgovernance.co.uk/DNRevenueReports
NTS Charges	http://www.gasgovernance.co.uk/ntscharges
UNC Section Y	http://www.gasgovernance.co.uk/TPD
Xoserve	http://xoserve.com/
ENA	http://www.energynetworks.org/
NTS 10 Year Statement	http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/Gas-Ten-Year-Statement/
NTS MOD186	http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Tools-and-Models/

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