

Wales & West Utilities

Indicative Distribution Transportation Charges from 1 October 2008

1. Introduction

This notice provides indicative levels of the charges that will apply from 1 October 2008, 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 will 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 an increase of 10% from the existing charging levels. Impacts that will influence the final price notification include final under recovery brought forward from 2007/8, Gas prices that will impact Shrinkage gas costs and the outcome of the annual AQ review process that will have an impact on Capacity income levels.

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

3.1. 2008/9 PCR Outcome.

The stand alone 2007/8 formula period ended on March 31st 2008. The 2008/9 Allowed Revenue includes the outcome of the PCR for this 5 year period. WWU intend to set charges that will recover 2008/9 allowed revenue as adjusted for under recovery of revenues to March 2008.

3.2. Annual Quantity Review (AQ Review)

As Capacity income is now a larger proportion of total collected income, collected income is now more sensitive to changes in factors that influence Capacity income. One recent noticeable trend has been the reduction in AQs from Shippers via the Annual AQ review process. In 2007/8 this was not factored into the October price decision and we had a resulting shortfall in collected against allowed income in 2007/8.

Early indications are that this trend is set to continue. We have therefore included a 5% reduction in AQs in our pricing assumptions. If we get updated information prior to Aug 1st we will update our price level decision.

3.3. Cost Pass through items

There are small increases in the areas of "Rates and Licence Fee ".

3.4. Shrinkage Gas costs

WWU is now subject to a "Shrinkage Gas Incentive Mechanism and the Allowed Revenue for 2008/9 will be adjusted for the outcome of this incentive. Consequently our final price rise will be dependant on our view of Gas Index Prices at the time we have to provide the actual Notice of charges. There has been a significant increase recently in forward Market prices for Gas and this has been reflected in the indicative price notice.

3.5. 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 current forecast outcome of the replacement incentive for 2008/9 has minimal impact on the October Price decision and the outcome of the 2007/8 Mains replacement incentive is included in K brought forward from 2007/8 as described below.

3.6. Projected K brought forward from 2007/8

Following the 2007/8 Annual AQ review process, where we saw a significant reduction in Shipper AQs, WWU experienced a significant fall in Capacity income from Oct 2007 against expected levels. Consequently collected revenue for 2007/8 will fall short of Allowed revenue for 2007/8 and we aim to collect this under funding in 2008/9.

The Replacement Mains Incentive adjustment factor (DNMRA) for 2007/8 will not be finalised until July and this could have an impact on K brought forward into 2007/8.

In summary, the 2007/8 Allowed Revenue is still forecast at this time and K will be finalised in line with our reporting requirements in July, however there are strong indications that there will be an under recovery from 2007/8. Our actual price notification in August will take into account actual K brought forward from 2007/8.

4. Structure of Distribution Transportation Charges

Following wide industry consultation on DNPC03 there will be a change to the structure of the charges for this year.

From 1st October 08 we expect to implement the proposals contained within DNPC03 which intend to collect 95% of System charges from Capacity charges .

We are continuing to assess the impact of 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.

5. Impact on Gas Supply Prices

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

6. Indicative Unit Charges From 1 October 2008

Directly Connected Systems

	Capacity	Commodity
	pence per pk day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1461	0.0178
73,200 to 732,000 kWh per annum	0.1280	0.0175
Firm:- 732,000 kWh per annum and above	$0.6547 \times \text{SOQ}^{-0.1806}$	$0.1091 \times \text{SOQ}^{-0.2121}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.3101 \times \text{SOQ}^{-0.1806}$	$0.1091 \times \text{SOQ}^{-0.2121}$

Connected Systems

	Capacity	Commodity
	pence per pk day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1461	0.0178
73,200 to 732,000 kWh per annum	0.1280	0.0175
Firm:- 732,000 kWh per annum and above	$0.6923 \times \text{SOQ}^{-0.1939}$	$0.1041 \times \text{SOQ}^{-0.2131}$
Interruptible:- (Note 1) 732,000 kWh per annum and above	$0.3279 \times \text{SOQ}^{-0.1939}$	$0.1041 \times \text{SOQ}^{-0.2131}$

Note 1

The interruption charge represents 47.37% of the firm capacity rate as referred to in Mod proposal 0210

LDZ Customer Capacity Charges

	pence per peak day kWh per day
Up to 73,200 Kwh per annum	0.0688
73,200 to 732,000 Kwh per annum	0.0026
732,000 Kwh per annum and above	$0.0546 \times \text{SOQ}^{-0.2100}$

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

	Fixed
Invoice	pence per day
Non-monthly read supply points	22.4848
Monthly read supply points	23.9414

Csep Administration Charge

	pence per day
Charge per supply point	0.1534

Optional LDZ Charge

Pence per peak day kWh per day
$902 \times [(\text{SOQ})^{-0.834}] \times D + 772 \times (\text{SOQ})^{-0.717}$