

## **Wales & West Utilities**

### **Indicative Distribution Transportation Charges from 1 October 2007**

#### **1. Introduction**

This notice provides indicative levels of the charges that will apply from 1 October 2007, 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 between 18% and 28% from the existing charging levels depending on volume throughput. Volume volatility is the main impact on the final price notification.

If we experience gas throughput volumes consistent with 2006/7 the price rise will need to be at the higher end of the % range given so as to recover 2007/8 allowed revenue.

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

##### **3.1. 2007/8 PCR Outcome.**

The previous 5 year formula period ended on March 31<sup>st</sup> 2007. The 2007/8 Allowed Revenue includes the outcome of the PCR for this 5 year period as well as the price control for the 2007/8 extension year. WWU intend to set charges that will recover 2007/8 allowed revenue as adjusted for under recovery of revenues to March 2007.

##### **3.2. Volume volatility**

The level of the price increase is influenced significantly by the forecast / actual volume throughput.

The Allowed Revenue Volume driver has been removed from Allowed Revenue calculations for 2007/8. Collected Revenue is still significantly affected by volume changes despite the recent increase in the Capacity element of the DN Transportation Charge. Consultation is ongoing with the industry around future arrangements.

If we experience volumes consistent with 2006/7 the price rise will need to be at the higher end of the % range given so as to recover 2007/8 allowed revenue.

### **3.3. Cost Pass through items**

There are small increases in the areas of "Rates and Licence Fee ". The significant impact and addition to DN costs in 2007/8 is "NTS Pensions Deficit "as agreed within the 2007/8 PCR.

### **3.4. Shrinkage Incentive Mechanism**

WWU is now subject to a "Shrinkage Gas Incentive Mechanism and the Allowed Revenue for 2007/8 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.

### **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 2007/8 has minimal impact on the October Price decision and the outcome of the 2006/7 Mains replacement incentive is included in K brought forward from 2006/7 as described below.

### **3.3 Projected K brought forward from 2006/7**

2006/7 outturn Transportation volumes have been significantly lower than previous years and the forecast Transportation volumes used for the October 2006 price rise. Consequently collected revenue for 2006/7 has fallen short of Allowed revenue for 2006/7 and there will be a collection of the allowed under funding in 2007/8.

The Replacement Mains Incentive adjustment factor ( DNMR ) for 2006/7 will not be finalised until July and this could have an impact on K brought forward into 2007/8.

In summary, the 2006/7 Allowed Revenue is still forecast at this time and K will be finalised in line with our reporting requirements in July. Our actual price notification in August will take into account actual K brought forward from 2006/7.

#### **4. Structure of Distribution Transportation Charges**

Following the replacement of the customer commodity charge (CCO) with the customer capacity charge (CCA) for domestic users only, there will be a change to the structure of the charges for this year. As we were unable to introduce the CCA charge from 1<sup>st</sup> April 07 we increased the LDZ System Capacity charge by an equivalent amount and reduced the CCO charge to zero. From 1<sup>st</sup> October 07 we expect to implement the CCA charge and reduce the LDZ System Capacity charge accordingly. Administration charges for 'Shared supply meter point allocation arrangements' are currently being reviewed and we are awaiting the outcome of this exercise. Other charges are expected to remain the same.

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 28<sup>th</sup> 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.