

# Indicative Notice of Change to Transportation Charges



From 1<sup>st</sup> April 2021



1 November 2020



WALES & WEST  
UTILITIES

## Contents

Introduction.....	3
Our Allowed Revenue.....	3
Transportation Revenue.....	3
Exit Capacity.....	4
Indicative Transportation Charges .....	5
Reason for the price change .....	6
Allowed Revenue Movement.....	6
Uncertainties and assumptions .....	7
Chargeable Base .....	7
MODt through the PCFM .....	7
Current and Indicative Charges from 1 April 2020 .....	8
Indicative LDZ System Entry Commodity Charge for Distributed Gas .....	10
Further information.....	11

## Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1<sup>st</sup> April 2021, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1<sup>st</sup> April 2021 will be published by 1<sup>st</sup> February 2021, in accordance with the two months' notice requirement within the Uniform Network Code.

## Our Allowed Revenue

RIO-GD1 requires networks to set charges to collect the forecast allowed revenue calculated under the price control. This allowance is split between Transportation revenue and Exit Capacity revenue which recovers the costs incurred from utilising the upstream network, the National Transmission System (NTS). RIO-GD2 is due to begin on 1 April 2021 and we are currently in the process of agreeing our revenue allowances with the Regulator. In December 2019, WWU submitted its Business Plan to Ofgem setting out proposed expenditure for RIO-GD2 and associated revenue allowances. The process for agreeing these revenue allowances with the Regulator is ongoing.

### Transportation Revenue

<i>Nominal values</i>	Forecast collection for 2021/22 at current charge rates (£'m)	Allowance for 2021/22 (£'m)	Delta required to be resolved (£'m)	Price change required
Transportation Revenue	429.8	473.1	43.3	10.1%

Allowed revenue for 2020/21 is £411.1m. If transportation charge rates were not adjusted in 2021/22, we would collect a forecast of £429.8m. Forecast allowed revenue for 2021/22 is £473.1m which reflects an increase of £62.0m upon the previous year and a variance to forecast collection at the current charge rates of £43.3m. The forecast allowed revenue figure for 2021/22 is based on our RIO-GD2 Business Plan which was submitted to Ofgem in December 2019.

The forecast revenues included in our RIO-GD2 plan have been updated for changes in the inflation forecast, updates to the MOD adjustment in 2021/22 following the commencement of the 2020 Annual Iteration Process and updates to cost true ups, incentives and revenue recovery, following the 2019/20 outturn reported to Ofgem through the 2019/20 RRP Submission.

Further details of our business plan can be found on our website [here](#).

These numbers may change significantly – final determinations are currently due in early December 2020. The RIO-GD2 draft determinations were published by Ofgem on 9 July 2020. Our overall reaction to the Draft Determination (DD) is one of concern – the package risks the safety and integrity of our network and is not in the interests of customer or investors.

Ofgem has also acknowledged that there were errors in the modelling of the Totex allowances awarded in the draft determinations, which will be corrected for Final Determinations. In addition, since Ofgem's Draft Determinations were published, the CMA has announced its Provisional Findings in respect of the water appeals on Ofwat's PR19 Final Determinations and we expect Ofgem to carefully consider these in reaching its own Final Determinations.

Our full response to the DD is published on our website [here](#):

### Exit Capacity

<i>Nominal values</i>	Forecast collection for 2021/22 at current charge rates (£'m)	Allowance for 2021/22 (£'m)	Delta required to be resolved (£'m)	Price change required
Exit Capacity Revenue	28.3	22.0	-6.3	-22.3%

Allowed revenue for 2020/21 is £27.9m. If exit capacity charge rates were not adjusted in 2021/22, we would collect a forecast of £28.3m. Forecast allowed revenue for 2021/22 is £22.0m which reflects an increase of £5.9m upon the previous year and a variance to forecast collection at the current charge rates of £-6.3m. The allowed revenue in 2021/22 is made up of our base allowance plus the cost true up and correction factor from 2019/20. The base allowance in 2021/22 is calculated using the latest published final and indicative price information from National Grid NTS.

The decrease in allowed revenue in 2021/22 largely relates to a large cost true up from 2019/20. We increased our base allowance for 2019/20 to align to price indicatives at the time. Actual prices in 2019/20 were significantly lower than expected leading to a cost true up of £25m. We targeted a lower revenue collection in 2019/20 and actually collected £49.3m, giving money back faster than our allowance intended, creating a more stable charging profile year on year, and ensuring consumers are not disadvantaged. This results in a positive correction factor adjustment in 2021/22 of £8.9m

## Indicative Transportation Charges

In order to collect the estimated Allowed Revenue, for 2021/22 of £495.1m, prices are forecast to change as follows:

	Forecast Allowed Revenue 2021/22 £m	Indicative Price Change on 1 April 2021
Transportation	473.1	10.1% increase
Exit Capacity	22.0	-22.3% decrease
<b>Total</b>	<b>495.1</b>	<b>8.1% increase</b>

We are also required to levy charges for transportation income excluding exit capacity in the proportions set out in the Uniform Network Code Section Y (UNC). Our Charges should seek to recover allowances in the following proportion:

System Charges		Customer Capacity
71.8%		28.2%
System Capacity (plus any Optional Tariff)	Commodity	
95%	5%	

Therefore we will adjust the specific unit rates to bring collection in line with the proportions set out in UNC. All networks are required to maintain such revenue splits to retain cost reflectivity in their charging. The specific price decreases required to maintain the collection apportionment required are:

Total Revenue				
8.1%				
Transportation Revenue			Exit Capacity	
10.1%			-22.3%	
Capacity		Commodity	By Exit Zone	
System	Customer	-39.0 %	SW1	0.0057
			SW2	0.0187
			SW3	0.0225
			WA1	0.0246
			WA2	0.0005
13.6%	13.5%			

Exit capacity prices are levied by exit zone taking into account the unit prices for exit points within that zone, capacity bookings for those exit points and prior year under or over recovery for that exit zone. The variability in NTS prices introduces the variability in the unit rates levied at each exit zone.



## Reason for the price change

In setting network charges each network must consider:

1. The movement in allowed revenue year on year.
2. Changes to the chargeable base which have occurred over the past charging year and forecast to occur in the next.

The movement in Allowed Revenue can be seen when compared to the prior year as:

### Allowed Revenue Movement

	2020/21 (£'m)	2021/22 (£'m)	Change (£'m)	Change (%)	Commentary
Base Revenue	423.82	498.59	74.77	18%	Details of our WWU Business Plan base revenue in RIIO-GD2 can be found <a href="#">here</a> .
Exit Capacity Cost True Up	(13.38)	(25.00)	(11.62)	87%	Represents the cost true up from 2018/19 and 2019/20 respectively. In both years WWU increased its base allowance using indicative prices at the time. Actual prices in both years were significantly lower than expected
Shrinkage Cost True Up	(4.34)	(8.25)	(3.91)	90%	Decrease stems from a year on year decrease in shrinkage volumes and a significant drop in shrinkage prices.
Incentives and Innovation	10.36	9.32	(1.04)	-10%	£1.9m increase in Environmental Emissions incentive revenue adjustment in 2020/21 due to improved performance on targets
Pass through	15.37	14.70	(0.67)	-4%	£0.9m decrease in adjustment for last resort supply claims year on year
'K'	7.63	5.85	(1.78)	-23%	2020/21 and 2021/22 reflect the targeted under recovery of exit capacity costs in 2018/19 and 2019/20 which enabled us to pass on the benefit of reduced NTS costs faster than the allowance intended.
<b>Total Allowed Revenue</b>	<b>439.00</b>	<b>495.12</b>	<b>56.12</b>	<b>13%</b>	
Of which					
Transportation	411.14	473.12	61.98	15%	
Exit Capacity	27.85	22.00	(5.85)	-21%	The large negative cost adjustment decreases the Exit Capacity allowance in 2021/22

## Uncertainties and assumptions

Our indicative charges are currently based on our RIIO-GD2 Business Plan which was submitted to Ofgem in December 2019. There could be significant changes to the forecast allowed revenues used to calculate our indicative price change before final price setting on 1 February 2021. The Final Determinations which detail our base allowances in RIIO-GD2 will be published by Ofgem in December 2020, and could be subject to appeal to the CMA.

There are a number of other movements that can occur between these estimates and the final values utilised in final price setting by 1st February 2021. Subjectivities include:

### Chargeable Base

Historically networks were required at the indicative stage of price setting to assume the likely impact of the current years AQ review and forecast the potential changes in both AQ and Load Factor for the following October.

Project Nexus introduced the concept of the chargeable SOQ, based on the network snapshot taken annually each December. This has largely removed the requirement for assumptions on network change to be made at final price setting. The rolling AQ process also results in the ability of the network to make informed assumptions over the December snapshot yet to be taken.

Final prices will reflect the December snapshot of capacity required on our network.

### MODt through the PCFM

At the time of this publication Ofgem have not formally published the “MOD” figure that will be included in 2021/22 prices after running the Annual Iteration Process. The indicative charges above include an estimate of what the MOD will be and this will be updated with finalised figures for the 60-day pricing notice.

## Current and Indicative Charges from 1 April 2021

LDZ SYSTEM COMMODITY CHARGES	Current Price effective from 1 April 2020	Indicative Price effective 1 April 2021
	Pence per kwh	
UP TO 73,200 KWH PER ANNUM	0.0334	0.0204
73,200 KWH - 732,000 KWH PER ANNUM	0.0292	0.0178
732,000 KWH PER ANNUM AND ABOVE	0.3389	0.2067
	x SOQ ^	
	-0.2775	-0.2775
SUBJECT TO A MINIMUM RATE OF	0.0024	0.0015

LDZ SYSTEM CAPACITY CHARGES	Pence per peak day kwh per day	
	UP TO 73,200 KWH PER ANNUM	0.1993
73,200 KWH - 732,000 KWH PER ANNUM	0.1729	0.1964
732,000 KWH PER ANNUM AND ABOVE	1.5485	1.7591
	x SOQ ^	
	-0.2513	-0.2513
SUBJECT TO A MINIMUM RATE OF	0.0147	0.0167

LDZ CUSTOMER CAPACITY CHARGES	Pence per peak day kwh per day	
	UP TO 73,200 KWH PER ANNUM	0.1049
73,200 KWH - 732,000 KWH PER ANNUM	0.0041	0.0047
732,000 KWH PER ANNUM AND ABOVE	0.0828	0.0940
	x SOQ ^	
	-0.2100	-0.2100

LDZ CUSTOMER FIXED CHARGES	Pence per day	
	73,200 KWH - 732,000 KWH PER ANNUM - BI ANNUAL READ SITES	32.5830
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	34.6938	39.3775

EXIT CAPACITY UNIT RATES BY EXIT ZONE	Current Price effective from 1 April 2020	Indicative Price effective from 1 April 2021
	Pence per peak day kwh per day	
SW1	0.0073	0.0057
SW2	0.0241	0.0187
SW3	0.0290	0.0225
WA1	0.0316	0.0246
WA2	0.0007	0.0005



## Indicative LDZ System Entry Commodity Charge for Distributed Gas

Site Name	GEMINI Name	Alias	LDZ System Entry Commodity Charge (p/kWh) Current Prices	LDZ System Entry Commodity Charge (p/kWh) Forecasted prices effective 1 April 2021
Bromham House Farm	BROMOS		-0.0963	-0.0495
Cannington Biomethane	CANNOS		-0.1000	-0.0532
Bishops Cleeve Biomethane	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0871	-0.0402
Enfield Biomethane	ENFDOS		-0.0458	-0.0163
Five Fords Biomethane	FIVEOS		-0.0045	0.0254
Fraddon	FRADOS	Penare Farm	-0.0819	-0.0349
Frogmary Biomethane	FROGOS		-0.0963	-0.0495
Great Hele Biomethane	HELEOS	Nadder Lane	-0.0496	-0.0202
Helscott Farm	HELSOS		-0.0963	-0.0495
Rotherdale	ROTHOS	Vale Green 2	-0.0623	-0.0329
Spittles Farm	SPITOS	Bearley Farm	-0.0963	-0.0495
Springhill Biomethane	SPNGOS		-0.0406	-0.0110
Pennans Farm	TBC		-0.0963	-0.0495
Northwick	NOCKOS		-0.0653	-0.0360
Avonmouth Wessex	WESXOS	Wessex Water	-0.1077	-0.0610
Willand	WILLOS		-0.0963	-0.0495
Wyke Farm	WYKEOS		-0.1025	-0.0558
Evercreech Biomethane	EVEROS		-0.1072	-0.0605
Trowbridge Biomethane	TRWBOS		-0.0526	-0.0232

The LDZ System Entry Commodity charge rates reflect the operating costs associated with the entry of the distributed gas and the benefits in terms of deemed NTS Exit and distribution network usage reductions. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis. There are currently 19 sites located within our network. Should further sites be connected during the charging year a separate statement will be issued specific to those new connections.

## Further information

If you have any further queries or require any further details on this notice please contact Smitha Coughlan, Pricing and Regulation Manager: [Smitha.Coughlan@wwutilities.co.uk](mailto:Smitha.Coughlan@wwutilities.co.uk).

