



Notification of LDZ Transportation Charges



To apply from
1st April 2021





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1.0 Introduction



This publication sets out the Local Distribution Zone (LDZ) transportation charges which will apply from 1st April 2021 for the use of the Wales & West Utilities Ltd (WWU) Distribution Network (DN), as required by Standard Special Condition A4 of the Gas Transporter Licence. This document does not override or vary any of the statutory, licence or Uniform Network Code (UNC) obligations upon WWU.

RIO-GD2 is due to begin on 1 April 2021. In December 2019, WWU submitted its Business Plan to Ofgem setting out proposed expenditure for RIO-GD2 and associated revenue allowances. Our forecast allowance included in our indicative price notice, was based on our submitted Business Plan. Ofgem’s RIO-GD2 Final Determinations were published in December 2020 and our final price change is based on the 2021/22 base allowances contained within these determinations. The change in our allowances between our Business Plan and Final Determinations drives the significant movement between the indicative price change published in October and our final price change as below.

Our final price change will be an average increase of 0.05% comprising:

| Average Price Change | | | | |
|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-----------------|
| 0.05% (Indicative: 8.1%) | | | | |
| Transportation Income | | | Exit Capacity | |
| Final: 0.04% (Indicative: 10.1%) | | | Final: 0.16% (Indicative: -22.3%) | |
| Capacity | | Commodity | Exit Zone | |
| System | Customer | Final: 4.4% (Indicative: -39%) | SW1 | 0.0110 (0.0057) |
| | | | SW2 | 0.0181 (0.0187) |
| | | | SW3 | 0.0125 (0.0225) |
| | | | WA1 | 0.0150 (0.0246) |
| | | | WA2 | 0.0178 (0.0005) |
| Final: 0.1% (Indicative: 13.6%) | Final: -0.5% (Indicative: 13.5%) | | | |

For more information about these changes, or our charges, please contact the pricing team on 02920 278838.





1.1. Changes between Indicative and Final pricing statements

The prices have been set in accordance with the RIIO GD2 Price Control charging principles and the apportionment of charges as set out in Uniform Network Code (UNC) Section Y.

In setting prices, WWU must consider what revenue is forecast to be collected against what it is allowed or plans to collect. Our final charges are lower than those presented at our Indicative statement in October 2020.

| | Forecast collection for 2021/22 (£'m) | Forecast allowance for 2021/22 (£'m) | Delta required to be resolved (£'m) | Price change required |
|-------------------------|---------------------------------------|--------------------------------------|-------------------------------------|-----------------------|
| Transportation | 417.56 | 417.68 | 0.12 | 0.04% |
| Exit Capacity | 28.36 | 28.40 | 0.04 | 0.16% |
| At Final | 445.92 | 446.08 | 0.16 | 0.05% |
| At Indicative | 458.10 | 495.10 | 37.00 | 8.10% |
| Change since indicative | -12.19 | -49.02 | -36.84 | -8.05% |

Our forecast collection in 2021/22 has decreased by £12.2m (2.7%), which is the result of an updated SOQ assumption for 2021/22 following the 'Snapshot of SOQs' we received from Xoserve in December. This snapshot is used to determine charging SOQs and AQs from the 1 April 2021.

The forecast allowance for 2021/22 has decreased by £-49.0m since publication of the indicative charges in October 2020. This comprises a £6.4m increase in exit capacity allowance and a £55.4m decrease in transportation allowance.

The exit capacity allowance for 2021/22 has increased as a result of the application of additional Transmission Services Revenue Recovery Charges which apply from 1 February 2021 to 30 September 2021. Assumptions for the remainder of the regulatory year have also been updated. Exit capacity base allowances for RIIO-GD2 have been amended in the final PCFM for calculation of 2021/22 allowed revenue.

The difference in transportation allowance stems from the use of RIIO-GD2 Final Determinations as published on 8 December 2020. The indicative price notice was based on the WWU Business Plan as submitted to Ofgem in December 2019. The most significant difference relates to the cost of capital.





1.2. Uniform Network Code (UNC)

UNC is supported by an integrated set of computer systems currently referred to as UK Link. The charges and formulae in this booklet will be used in the calculation of charges within UK Link, which are definitive for billing purposes.

There are several areas of the UNC that impact upon the cost to Shippers of using the transportation network, such as imbalance charges, scheduling charges, capacity over-runs and ratchets, top-up neutrality charges and contractual liability. Reference should be made to the UNC – as modified from time to time – for details of such charges and liabilities. The UNC and related documents can be found on the Joint Office of Gas Transporters website (www.gasgovernance.co.uk).

1.3. Invoicing

The Xoserve Invoicing team produce and issue the invoices that are derived from the transportation charges shown within this publication. To clarify the link between pricing and invoicing, charge codes and invoice names are included in Section 6. For more information on invoicing, please contact Xoserve, the invoicing service provider, via e-mail at css_billing@xoserve.com.

1.4. Distribution Price Control Formula – RIIO-GD2

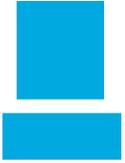
Distribution charges are derived in relation to a price control formula set by Ofgem within the RIIO framework. This formula dictates the maximum revenue that can be earned from the transportation of gas. The Statutory consultation for RIIO-GD2 Gas Distribution licences, which set out our price control formula for GD2, was published by Ofgem on 8 December 2020. The deadline for responses was the 19 January 2021. WWU's allowed revenue for the year has been calculated using the Price Control Financial Model (PCFM) which was published in December 2020 as part of the Statutory Consultation. The PCFM will undergo a process of update during 2021 before a final model is agreed.

Should the DN operator earn more or less than the maximum permitted revenue in any formula year, a compensating adjustment will be made. A forecast of this adjustment can be used to apply it in the following year, with a true up to actuals the year after. Under the revised Licences the normal date for changing any of the charges will be 1 April annually.

Within the Network price control, revenue recovery is split between LDZ system charges and LDZ customer charges. The relative level of these charges is based on the relative level of costs of these areas of activity. LDZ exit capacity charges recover the costs passed through from National Grid Transmission.

The prices levied for 2021/22 are set in accordance with the current forecast maximum allowed revenue for transportation income and for exit capacity income. Section 2 sets out in more detail how our allowance is derived.





1.5. Theft of Gas

The licensing regime places incentives on Transporters, Shippers and Suppliers to take action in respect of suspected theft of gas. Certain costs associated with individual cases of theft are recovered through transportation charges. The charges reflect these requirements, with the Transporter not gaining or losing financially when taking one year with another.

The total transportation income for 2021/22 has been decreased by £0.3m in respect of net recoveries made in 2019/20 by WWU under its licence obligation.



2.0 Allowed Revenue



2.1. Maximum Allowed Revenue

RIIO-GD2 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).

| | Forecast allowed revenue for 2020/21 (£'m) | Forecast allowed revenue for 2021/22 (£'m) | Movement (£'m) | Movement (%) |
|----------------|--|--|----------------|--------------|
| Transportation | 410.7 | 417.7 | 7.0 | 2% |
| Exit Capacity | 27.9 | 28.4 | 0.5 | 2% |
| Total | 438.6 | 446.1 | 7.5 | 2% |

Under the RIIO-GD1 licence, final allowed revenue was not known until after the end of the regulatory year. This was because some licence terms, such as Network Innovation Allowance, did not crystallise until the completion of the relevant year. Under the RIIO-GD2 licence, allowed revenue will be set following the Annual Iteration Process (AIP), which ends on 30 November each year. Adjustments can be made to allowed revenue after this date if deemed to be significant. Discussions with Ofgem as to the materiality of a 'significant' adjustment, are ongoing.





2.2. Transportation Revenue (£417.7m)



Our forecasted maximum allowed transportation revenue increases by £7.0m in 2020/21.



The most notable movements in the underlying drivers which make up the network allowance are:

1. A lower base allowance. The majority of the reduction relates to a decrease in return on RAV between RIIO-GD1 and RIIO-GD2 Final Determination allowances.
2. A larger negative cost true up, which is the result of larger negative adjustments for shrinkage and inflation true ups in 2021/22.
3. Uplift to nominals taking final proposals from 2009/10 prices to current prices. The 2021/22 base allowance is inflated using RPI to 18/19 real prices and using CPI to nominals in line with the RIIO-GD2 draft licence.
4. A positive MODt (£5.3m in 2021/22 compared with £-46.3m in 2020/21) predominantly reflecting the inclusion of reductions in cost of debt allowance compared to that at final proposals within the 2020/21 MODt. For 2021/22 the cost of debt rate is rolled into final determinations base allowances and makes up a significant part of the decrease in base allowance.

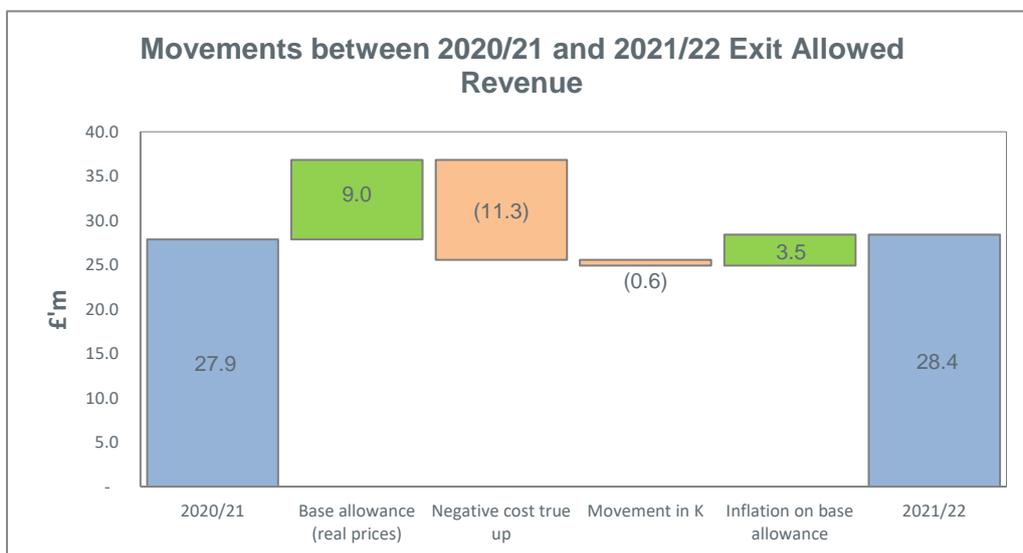




2.3. Exit Capacity Revenue (£28.4m)

Following the implementation of Uniform Network Cost Modification 0195AV, industry arrangements for the charging of NTS Exit Capacity costs changed on 1st October 2012. National Grid Transmission (NTS) invoices Distribution Networks (DNs) based on the NTS published prices effective, and the Exit Point bookings made by the DN. Ofgem provide an allowance to networks to recover the anticipated cost of Exit Capacity, and a mechanism to adjust where these costs fall outside those anticipated.

For 2021/22 our allowances increase by £0.5m to £28.4m:



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 price information from National Grid NTS.

Our base allowance increases by £9m in 2021/22. The increase is a result of the change in NTS charging methodology on 1 October 2020 due to the implementation of MOD 0678 Postage Stamp. Costs to WWU have increased as a result of this change in charging methodology. Following on from the implementation of MOD 0678, National Grid NTS published a price notice on 30 December for an additional Transmission Services Revenue Recovery Charge which will apply from 1 February 2021 to 30 September 2021. Assumptions for the remainder of the regulatory year have also been updated. A large cost true up from 2019/20 offsets this increase by £11.3m. WWU increased its 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, which resulted in a positive correction factor adjustment in 2021/22 of £8.9m.





3.0 Transportation Charges

3.1. Final Charges from 1 April 2021

| | Current Price effective from 1 April 2020 | Final Prices effective 1 April 2021 |
|-------------------------------------|---|---|
| LDZ SYSTEM COMMODITY CHARGES | Pence per kwh | |
| UP TO 73,200 KWH PER ANNUM | 0.0334 | 0.0349 |
| 73,200 KWH - 732,000 KWH PER ANNUM | 0.0292 | 0.0305 |
| 732,000 KWH PER ANNUM AND ABOVE | 0.3389 | 0.3538 |
| | x SOQ ^ | |
| | -0.2775 | -0.2775 |
| SUBJECT TO A MINIMUM RATE OF | 0.0024 | 0.0025 |

| | Pence per peak day kwh per day | |
|------------------------------------|---------------------------------------|----------------|
| LDZ SYSTEM CAPACITY CHARGES | | |
| UP TO 73,200 KWH PER ANNUM | 0.1993 | 0.1995 |
| 73,200 KWH - 732,000 KWH PER ANNUM | 0.1729 | 0.1731 |
| 732,000 KWH PER ANNUM AND ABOVE | 1.5485 | 1.5500 |
| | x SOQ ^ | |
| | -0.2513 | -0.2513 |
| SUBJECT TO A MINIMUM RATE OF | 0.0147 | 0.0147 |

| | Pence per peak day kwh per day | |
|--------------------------------------|---------------------------------------|----------------|
| LDZ CUSTOMER CAPACITY CHARGES | | |
| UP TO 73,200 KWH PER ANNUM | 0.1049 | 0.1044 |
| 73,200 KWH - 732,000 KWH PER ANNUM | 0.0041 | 0.0041 |
| 732,000 KWH PER ANNUM AND ABOVE | 0.0828 | 0.0824 |
| | 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 | 32.4201 |
| 73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES | 34.6938 | 34.5203 |

| EXIT CAPACITY UNIT RATES BY EXIT ZONE | Price effective from 1 April 2020 | Final Prices effective 1 April 2021 |
|--|--------------------------------------|--|
| | Pence per peak day kwh per day | |
| SW1 | 0.0073 | 0.0110 |
| SW2 | 0.0241 | 0.0181 |
| SW3 | 0.0290 | 0.0125 |
| WA1 | 0.0316 | 0.0150 |
| WA2 | 0.0007 | 0.0178 |

3.2. Optional LDZ Charge

The optional LDZ tariff is available, as a single charge, as an alternative to the standard LDZ system charges. This tariff may be attractive to large loads located close to the NTS. The rationale for the optional tariff is that, for large Network loads located close to the NTS or for potential new Network loads in a similar situation, the standard LDZ tariff can appear to give perverse economic incentives for the construction of new pipelines when Network connections are already available. This could result in an inefficient outcome for all system users.

The charge is calculated using the function below:

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

Where: (SOQ) is the Registered Supply Point Capacity, or other appropriate measure, in kWh per day and D is the direct distance, in km, from the site boundary to the nearest point on the NTS. Note that ^ means "to the power of".

4.0 LDZ System Entry



4.1.DN Entry Commodity Charge/Credit

DN Entry Commodity charges reflect the costs of receiving gas from an entry point at a lower pressure tier than the NTS. The charge/credit will differ according to the amount of gas entering the network system, the pressure tier at which the gas enters the system and the operational costs resulting from the entry point.

The charge, which comprises the following three elements, is an adjustment to the full transportation charge:

- i. **Lower System Usage:** For the gas received from this source the Shippers will get a credit in recognition that the gas has entered the network at a lower pressure tier, thus using less of the network system.
- ii. **Avoidance of Exit Capacity:** The Shipper will receive a credit for the avoidance of exit capacity charges as they have not taken gas which has entered the Wales & West network through the National Transmission offtake point.
- iii. **Operational Costs:** The Shipper will be charged an operational cost, principally maintenance, relating to the equipment owned and operated by the Gas Distribution Network.

The sum of the above three components may result in either a credit or a debit to the Shipper. The table below gives the entry commodity unit price for all known sites within the Wales & West Network set to operate during 2021/22. Where additional sites are connected which are not currently planned to flow during 2021/22 these will be published if and when information on pressure tier, specific opex costs and flows are available. Typically this may not be until a Gemini site name is allocated to the connection.





LDZ System Entry Commodity Charge/Credit by DN Entry point

| Site Name | GEMINI Name | Alias | LDZ System Entry Commodity Charge (p/kWh) Current Prices | LDZ System Entry Commodity Charge (p/kWh) Prices effective 1 April 2021 |
|---------------------------|-------------|----------------------------------|--|---|
| BROMHAM HOUSE FARM | BROMOS | | -0.0969 | -0.0537 |
| CANNINGTON BIOMETHANE | CANNOS | | -0.1005 | -0.0573 |
| BISHOPS CLEEVE BIOMETHANE | CLEEOS | Grundon Landfill / Wingmoor Farm | -0.0876 | -0.0443 |
| ENFIELD BIOMETHANE | ENFDOS | | -0.0462 | -0.0204 |
| FIVE FORDS BIOMETHANE | FIVEOS | | -0.0052 | 0.0214 |
| FRADDON | FRADOS | Penare Farm | -0.0825 | -0.0391 |
| FROGMARY BIOMETHANE | FROGOS | | -0.0969 | -0.0537 |
| GREAT HELE BIOMETHANE | HELEOS | Nadder Lane | -0.0501 | -0.0243 |
| HELSCOTT FARM | HELSOS | | -0.0969 | -0.0537 |
| ROTHERDALE | ROTHOS | Vale Green 2 | -0.0626 | -0.0371 |
| SPITTLES FARM | SPITOS | Bearley Farm | -0.0969 | -0.0537 |
| SPRINGHILL BIOMETHANE | SPNGOS | | -0.0411 | -0.0152 |
| PENNANS FARM | TBC | | -0.0969 | -0.0537 |
| NORTHWICK | NOCKOS | | -0.0657 | -0.0402 |
| AVONMOUTH WESSEX | WESXOS | Wessex Water | -0.1081 | -0.0652 |
| WILLAND | WILLOS | | -0.0969 | -0.0537 |
| WYKE FARM | WYKEOS | | -0.1030 | -0.0599 |
| EVERCREECH BIOMETHANE | EVEROS | | -0.1076 | -0.0646 |
| TROWBRIDGE BIOMETHANE | TRWBOS | | -0.0531 | -0.0273 |





5.0 Charge Types and Invoice Mapping

5.1. Xoserve Charge Mapping

The following list presents the core invoice and charge types reflected in this document, which are billed by Xoserve on our behalf.

A full list of current invoice and charge types is available through the Xoserve Shared Area.

| | Invoice Type | Charge Type |
|-----------------------------------|--------------|-------------|
| LDZ Capacity | | |
| Supply Point LDZ Capacity | CAZ | ZCA |
| CSEP LDZ Capacity | CAZ | 891 |
| Unique Sites LDZ Capacity Charge | CAZ | 871 |
| Unique Sites Optional Tariff | CAZ | 881 |
| Customer Capacity | | |
| Customer LDZ Capacity | CAZ | CCA |
| Customer Capacity fixed Charge | CAZ | CFI |
| Unique Sites Customer Capacity | CAZ | 872 |
| Commodity | | |
| LDZ Commodity | COM | ZCO |
| CSEP Commodity | COM | 893 |
| Unique Sites Commodity | COM | 878 |
| LDZ System Entry Commodity Charge | COM | LEC |
| Exit Capacity | | |
| LDZ Exit Capacity | CAZ | ECN |
| CSEP Exit Capacity | CAZ | C04 |
| Unique Sites Exit Capacity | CAZ | 901 |
| Other Charges | | |
| LDZ Shared Supply Admin Charge | CAZ | 883 |
| CSEP Admin Charge | CAZ | 894 |





5.2. Contact Us

Any questions or queries relating to this document or transportation charges in general please do not hesitate to contact our Pricing Team on 02920 278838 or visit our website:

<http://www.wwutilities.co.uk/>

