


Indicative Notice of Change to Transportation Charges



From 1st April 2016



30th October 2015



WALES & WEST
UTILITIES

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Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1st April 2016, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from 1st April 2016 will be published by 1st February 2016, in accordance with the two months' notice requirement within the Uniform Network Code.

Indicative Transportation Charges

In order to collect the estimated Allowed Revenue for 2016/17 of £402.1m, (including Exit Capacity Charges relating to NTS Exit Capacity costs of £23.4m), prices are forecast to increase by:

- Transportation Prices - 2.7%
- Exit Capacity Prices – 12.4%

The final price increase, to be published by 1st February 2016, will reflect the RPI percentage increase reported in the November 2015 Treasury publication, and our latest view of any future change in capacity income following the Annual Quantity (AQ) review, effective from 1st October 2015.

Current transportation prices and indicative transportation prices from 1st April 2016, reflecting these changes, are shown at Annex A.

Reason for the price change

The level of charges have been constructed on the latest available forecasts of the 2016/17 Allowed and Collected Revenues, which are still subject to change. The allowed revenue, including exit capacity can be traced to the current forecast allowed revenue for 2015/16 as follows:

- The year on year impact on Base Revenue as stated at Final Proposal adjusted as directed by Ofgems Annual Iteration Process and inflation
- The impact of Exit Capacity and Shrinkage Cost adjustments
- Increase to the incentives earned representing the strong performance by WWU in areas such as Stakeholder Engagement, Customer Satisfaction and Ofgems recognition through the Discretionary Reward.
- Movement in K. Networks are only allowed to collect from the consumer the revenue set out in our allowances. Any monies over or under recovered is corrected for through K. Allowed revenue in 2015/16 was subject to a £6.5m reduction due to the prior over collection. The current year is impacted by a small under collection.
- Reduction in the Annual Quantity (AQ) which reduces the forecast collected revenues for 2016/17.

Uncertainties and assumptions

AQ Review

Whilst we have a good indication of the Annual Quantity decline and this has been included in our indicative price change, we won't know the final outcome until we have visibility of October invoices issued during November. Any significant variation from our assumption will result in a different level of forecast collected income which would necessitate an alteration to the price change.

MODt through the PCFM

At the time of this publication Ofgem have not formally published the “MOD” figure that will be included in 15/16 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.

CSEP charges

CSEP admin charges have still been included in our annual charges. It is anticipated that these charges will be removed though upon project nexus implementation – current implementation 1st October 2016 having been delayed from its planned implementation of October 2015.

RPI

Prices will be set using the November 2015 Treasury Forecast. This is not known at the time of price setting therefore the forecast published in August 2015 has been used, the latest available Treasury forecast.

Indicative LDZ System Entry Commodity Charge for Distributed Gas

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. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis. There are currently 12 sites located within the WWU network which are flowing gas onto the network with an expectation that two more will become live during 2016/17.

| Entry Point | Prior Year LDZ System Entry Commodity Charge (p/kWh) | Current Year Forecasted LDZ System Entry Commodity Charge (p/kWh) |
|--------------------------------------|--|---|
| Springhill Nurseries | 0.0092 (Charge) | - 0.0147 (Credit) |
| Vale Green 2 (aka Rotherdale Farm) | - 0.0455 (Credit) | - 0.0349 (Credit) |
| Wessex Water | - 0.0809 (Credit) | - 0.0809 (Credit) |
| Penare Farm (aka Fraddon) | - 0.0809 (Credit) | - 0.0392 (Credit) |
| Wyke Farm | - 0.0771 (Credit) | - 0.0493 (Credit) |
| Enfield | - 0.0372 (Credit) | - 0.0349 (Credit) |
| Five Fords | - 0.0372 (Credit) | 0.0359 (Charge) |
| Cannington | - 0.0767 (Credit) | - 0.0746 (Credit) |
| Grundon Landfill (aka Wingmoor Farm) | - 0.0659 (Credit) | - 0.0240 (Credit) |
| Bearley Farm** | - 0.0355 (Credit) | - 0.0383 (Credit) |
| Nadder Lane (aka Great Hele) | - 0.0659 (Credit) | - 0.0240 (Credit) |
| Frogmary | - 0.0809 (Credit) | - 0.0240 (Credit) |
| Netherex Farm** | - 0.0659 (Credit) | - 0.0695 (Credit) |
| Willand* | - 0.0021 (Credit) | - 0.0349 (Credit) |

* Willand first flowed gas in October 2015

** Netherex Farm and Bearley Farm are yet to flow gas in 2015/16

Modification 0549

Modification 0549 seeks to amend the rebate given to DN Entry Shippers. Should this modification be approved by Ofgem it will have the effect of increasing the above charge/credits by an amount equal to the NTS Entry Commodity charge levied by the NTS. WWU would, in this instance, refer to the pricing statement of NTS and not reissue this pricing notice.

Further information

If you have any further queries or require any further details on this notice please contact Robert Wigginton, Pricing and Regulation Manager on 02920278838 or Robert.wigginton@wwutilities.co.uk.

LDZ Charges From 1st April 2016: Current Prices compared to Indicative Prices

LDZ Directly Connected Systems and Cseps: Capacity Charge (ZCA)

| <i>Capacity</i> | Current Prices (effective from 1st April 2015) | Indicative Prices From 1st April 2016 |
|---------------------------------|--|---|
| | (p/kWh/day) | (p/kWh/day) |
| Up to 73,200 kWh per annum | 0.1887 | 0.1938 |
| 73,200 to 732,000 kWh per | 0.1638 | 0.1682 |
| 732,000 kWh per annum and above | $1.4660 \times \text{SOQ}^{-0.2513}$ | $1.5056 \times \text{SOQ}^{-0.2513}$ |
| Subject to a minimum rate of | 0.0139 | 0.0143 |

LDZ Directly Connected Systems and Cseps: Commodity Charge (ZCO)

| | Current Prices (effective from 1st April 2015) | Indicative Prices From 1st April 2016 |
|---------------------------------|--|---|
| | pence per kWh | pence per kWh |
| Up to 73,200 kWh per annum | 0.0288 | 0.0296 |
| 73,200 to 732,000 kWh per | 0.0251 | 0.0258 |
| 732,000 kWh per annum and above | $0.2916 \times \text{SOQ}^{-0.2775}$ | $0.2995 \times \text{SOQ}^{-0.2775}$ |
| Subject to a minimum rate of | 0.0020 | 0.0021 |

LDZ Customer Capacity Charges (CCA)

| | Current Prices (effective from 1st April 2015) | Indicative Prices From 1st April 2016 |
|---------------------------------|--|---|
| | (p/kWh/day) | (p/kWh/day) |
| Up to 73,200 kWh per annum | 0.0999 | 0.1026 |
| 73,200 to 732,000 kWh per annum | 0.0039 | 0.0040 |
| 732,000 kWh per annum and above | $0.0789 \times \text{SOQ}^{-0.2100}$ | $0.0810 \times \text{SOQ}^{-0.2100}$ |

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

| | Current Prices (effective from 1st April 2015) | Indicative Prices From 1st April 2016 |
|--------------------------------|--|---|
| | pence per day (p/kWh/day) | pence per day |
| Non-monthly read supply points | 32.4208 | 33.2962 |
| Monthly read supply points | 34.5211 | 35.4532 |

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 following function:

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”.

CSEP Administration Charge

| | Current Prices (effective from 1 st April 2015) | Indicative Prices From 1 st April 2016 |
|--------------------------------|--|---|
| <i>Charge per supply point</i> | 0.0910p/day (£0.33 per annum) | 0.0829p/day (£0.30 per annum) |

Please note that the CSEP administration charge is calculated by Xoserve and is outside of the RII0-GD1 price control settlement.

Indicative ECN (Exit Capacity Charges) From 1st April 2016

| Exit Zone | Current Prices (p/kWh/day) | Indicative Prices From 1 st April 2016 (p/kWh/day) |
|-----------|----------------------------|---|
| SW1 | 0.0062 | 0.0091 |
| SW2 | 0.0193 | 0.0171 |
| SW3 | 0.0219 | 0.0281 |
| WA1 | 0.0231 | 0.0253 |
| WA2 | 0.0013 | 0.0027 |