


# Indicative Notice of Change to Transportation Charges



From 1<sup>st</sup> April 2017



31<sup>st</sup> October 2016



WALES & WEST  
UTILITIES

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## Introduction

This notice provides indicative levels of gas transportation charges that will apply from 1<sup>st</sup> April 2017, 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 2017 will be published by 1<sup>st</sup> February 2017, 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 2017/18 of £401.0m, (including Exit Capacity Charges relating to NTS Exit Capacity costs of £24.0m), prices are forecast to decrease by:

- Transportation Prices: average 2.3% reduction
- Exit Capacity Prices: average 1.0% reduction

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). Currently 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%	

Current forecasts predict that a single price change for Transportation charges would result in a recovery of only 3.2% through Commodity and 96.8% through System Capacity. 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 remain cost reflective in their charging.

Therefore, whilst our overall price change (required to balance system demands with our permitted allowances) is forecast at:

- Reduction by 2.3% (prior year increase of 2.7%) for Transportation charges excluding Exit Capacity; and
- Reduction of 1.0% (prior year increase of 12.4%) to Exit Capacity Charges.

The specific price changes required to maintain the collection apportionment required is:

Transportation Income			Exit Capacity	
-2.3%			-1.0%	
Capacity		Commodity	By Exit Zone	
System	Customer			
-2.9%	-2.6%	52.7%	SW1	30%
			SW2	4%
			SW3	-9%
			WA1	-32%
			WA2	152%

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.

This indicative price notification sets out the rates which would apply from 1<sup>st</sup> April 2017 reflecting these adjustments.

## Reason for the price change

The level of charges have been constructed on the latest available forecasts of the 2017/18 Allowed and Collected Revenues, which are still subject to change. Overall a small increase in allowed revenue is compensated by a forecast increase in collected revenue due. This is due to increased SOQs following the implementation of the October 2016 Load Factor tables.

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

	2016/17 (£'m)	2017/18 (£'m)	Change (£'m)	Change (%)	Commentary
Base Revenue	399.36	407.86	8.50		A higher Final Proposal allowance (£11.3m) and inflation (£6.9m) for 2017/18 is compensated by a higher reduction through MODt, the give back to the consumer from outperformance against final proposals (£9.7m)
Exit Capacity Cost True Up	-5.06	-4.93	0.13	-2.4%	Represents the cost true up from 2014/15 and 2015/16 respectively. The increases in NTS Exit Capacity Cost we are subject to for 2016/17 will not impact allowances until 2018/19.
Shrinkage Cost True Up	-4.39	-6.10	-1.71	38.8%	The low gas prices of 2014/15 were even lower for 2015/16 when compared to allowances
Incentives	8.61	7.57	-1.04	-12.1%	2016/17 included £1m for Discretionary award which is only awarded every other year.
Pass through	0.20	2.74	2.54	1271.8%	Higher pensions costs in 2015/16 result in a higher pass through in 2017/18
'K'	1.24	-6.14	-7.38	-594.0%	Over collection by £5.8m in 2015/16 results in a reduction of allowances in 2017/18 of £6.14m once inflated.
Total Allowed Revenue	399.97	400.99	1.02		Total allowed revenue therefore has increased by £1m year on year.
Of which					
Transportation	376.66	376.94	0.28	0.1%	
Exit Capacity	23.31	24.05	0.74	3.1%	



## Uncertainties and assumptions

Our indicative charges are set using the best estimates available, however movements can occur between these estimates and the final values utilised in final price setting by 1st February 2017. Key subjectivities include:

### AQ Review

Whilst we have a good indication of the Annual Quantity (AQ), Load Factor (LF) and Supply Offtake Quantity (SOQ), 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.

Furthermore the implementation of Project Nexus will review the requirement for Networks to forecast the AQ position mid way through the charging year, replaced by a fixed charging AQ. This should reduce networks over or under collection, increasing stability in prices.

### MODt through the PCFM

At the time of this publication Ofgem have not formally published the "MOD" figure that will be included in 17/18 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. These charges will be removed upon project nexus implementation expected 1<sup>st</sup> June 2017.

### RPI

Prices will be set using the November 2016 Treasury Forecast. This is not known at the time of price setting therefore the forecast published in August 2016 has been used, the latest available Treasury forecast.

The final price change, to be published by 1<sup>st</sup> February 2017, will reflect the RPI percentage increase reported in the November 2016 Treasury publication, any changes to the view of allowed revenue and our latest view of any future change in capacity income following the Annual Quantity (AQ) review.

## LDZ Charges From 1st April 2017: Current Prices compared to Indicative Prices

### LDZ Directly Connected Systems and CSEPS: Capacity Charge (ZCA)

	<b>Current Prices</b>	<b>Indicative Prices From 1<sup>st</sup> Apr 2017</b>
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.1938	0.1882
73,200 to 732,000 kWh per	0.1682	0.1633
732,000 kWh per annum and above	$1.5056 \times \text{SOQ}^{-0.2513}$	$1.4619 \times \text{SOQ}^{-0.2513}$
Subject to a minimum rate of	0.0143	0.0139

### LDZ Customer Capacity Charges (CCA)

	<b>Current Prices</b>	<b>Indicative Prices From 1st Apr 2017</b>
	(p/kWh/day)	(p/kWh/day)
Up to 73,200 kWh per annum	0.1026	0.0999
73,200 to 732,000 kWh per annum	0.0040	0.0039
732,000 kWh per annum and above	$0.0810 \times \text{SOQ}^{-0.2100}$	$0.0789 \times \text{SOQ}^{-0.2100}$

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

	<b>Current Prices</b>	<b>Indicative Prices From 1st Apr 2017</b>
	pence per day (p/kWh/day)	pence per day
Non-monthly read supply points	33.2962	30.8323
Monthly read supply points	35.4532	32.8297

### CSEP Administration Charge

	<b>Current Prices</b>	<b>Indicative Prices From 1st Apr 2017</b>
Charge per supply point	0.0829p/day (£0.30 per annum)	0.0755p/day (£0.28 per annum)

Please note that the CSEP administration charge is calculated by Xoserve and will cease to be levied by the Gas Transporters following the go live of UK link under Project Nexus, currently anticipated at being 1<sup>st</sup> June 2017.

**LDZ Directly Connected Systems and CSEPS: Commodity Charge (ZCO)**

	<b>Current Prices</b>	<b>Indicative Prices From 1<sup>st</sup> Apr 2017</b>
	<b>pence per kWh</b>	<b>pence per kWh</b>
Up to 73,200 kWh per annum	0.0296	0.0452
73,200 to 732,000 kWh per	0.0258	0.0394
732,000 kWh per annum and above	$0.2995 \times \text{SOQ} \wedge^{-0.2775}$	$0.4573 \times \text{SOQ} \wedge^{-0.2775}$
Subject to a minimum rate of	0.0021	0.0032

**Indicative ECN (Exit Capacity Charges) From 1 April 2017**

<b>Exit Zone</b>	<b>Current Prices (p/kWh/day)</b>	<b>Indicative Prices From 1st Apr 2017 (p/kWh/day)</b>
SW1	0.0091	0.0118
SW2	0.0171	0.0177
SW3	0.0281	0.0255
WA1	0.0253	0.0172
WA2	0.0027	0.0068



## 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 reductions. The rate associated with the LDZ system Entry Commodity Charge is calculated on a site by site basis. There are currently 15 sites located within the WWU network which have flowed gas and a further two expected to in the next 12 months. Should further sites be connected during the charging year a separate statement will be issued specific to those new connections.



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 2017
BROMHAM HOUSE FARM	BROMOS		-0.0429	-0.1302
CANNINGTON BIOMETHANE	CANNOS		-0.0746	-0.1336
BISHOPS CLEEVE BIOMETHANE	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0241	-0.1336
ENFIELD BIOMETHANE	ENFDOS		-0.0148	-0.0639
FIVE FORDS BIOMETHANE	FIVEOS		0.0358 (Charge)	-0.0304
FRADDON	FRADOS	Penare Farm	-0.0392	-0.1101
FROGMARY BIOMETHANE	FROGOS		-0.0241	-0.1001
GREAT HELE BIOMETHANE	HELEOS	Nadder Lane	-0.0241	-0.0472
HELSCOTT FARM	HELSOS		-0.0695	-0.1302
ROTHERDALE	ROTHOS	Vale Green 2	-0.0148	-0.0639
SPRINGHILL BIOMETHANE	SPNGOS		-0.0148	-0.0639
SPITTLES FARM	SPITOS	Bearley Farm	-0.0083	-0.1302
AVONMOUTH WESSEX	WESXOS	Wessex Water	-0.0847	-0.1403
WILLAND	WILLOS		0.0105 (Charge)	-0.1302
WYKE FARM	WYKEOS		-0.0746	-0.1336
LORDS MEADOW	TBC	Crediton	-0.0847	-0.1403
PENNANS FARM	TBC		-0.0695	-0.1302

## 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](mailto:Robert.wigginton@wwutilities.co.uk).

