Notification of LDZ Transportation Charges

To apply from
1st April 2018

WALES&WEST UTILITIES

Contents

1.0 Introduction

This publication sets out the Local Distribution Zone (LDZ) transportation charges which will apply from 1st April 2018 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.

Our final transportation price change will be an average increase of 5.6% comprising:

<table>
<tr><th colspan="5">Average Price Change</th></tr>
<tr><td colspan="5">5.6%
(Indicative: 6.9%)</td></tr>
<tr><th colspan="3">Transportation Income</th><th colspan="2">Exit Capacity</th></tr>
<tr><td colspan="3">Final: 0.4%
(Indicative: 1.6%)</td><td colspan="2">Final: 80.0%
(Indicative: 83.2%)</td></tr>
<tr><th colspan="2">Capacity</th><th rowspan="2">Commodity</th><th colspan="2">Exit Zone</th></tr>
<tr><td>System</td><td>Customer</td><td>SW1</td><td>79.1% (74.8%)</td></tr>
<tr><td rowspan="2">Final: -0.6%
(Indicative: 0.8%)</td><td rowspan="2">Final: 0.2%
(Indicative: 1.3%)</td><td rowspan="4">Final: 25.3%
(Indicative: 24.5%)</td><td>SW2</td><td>92.5% (84.2%)</td></tr>
<tr><td>SW3</td><td>99.8% (89.8%)</td></tr>
<tr><td>WA1</td><td>93.8% (84.3%)</td></tr>
<tr><td>WA2</td><td>47.7% (55.9%)</td></tr>
</table>

For more information about these changes, or our charges, please do not hesitate to contact the pricing team on 02920278838.

1.1. The impact of NTS charges on our allowances and consequently our charges

For 2018/19 a large element of the overall WWU price change relates specifically to NTS Exit Capacity charges. Without these our charges are increasing by less than the rate of inflation at only 0.4%. This reflects a real bill reduction for the consumer if passed on by their supplier.

Our Exit Capacity charges however are increasing by an average of 80.0%.

In May 2016 NTS published its final prices for October 2016 and forecast thereafter. These prices were significantly in excess of both the historically published indicatives and our allowances. The consequence of this is that those higher costs which were imposed and paid for by ourselves ultimately work their way to the end consumer through the lagged cost true up mechanism.

We continue to work with NTS and the industry in delivering a more predictable and stable charging regime from the NTS. This should result in a reduction in the volatility of charges to ourselves and consequently passed on through our exit capacity charges two years later. It is expected this new regime for NTS will be effective from October 2019.

Where exit capacity costs are forecast to vary from allowances set as part of the price control it is within the Networks ability to request Ofgem to amend future allowances to align with the revised cost profile. We have taken this action in respect of the large increases in charges levied by the NTS. Examples of the scale of the change to individual unit rates for exit points within our region include:

Exit point	Price effective 1 October 2015	Price effective 1 October 2016	Movement (%)
Dowlais	0.0001	0.0128	12,800%
Dyffyn Clydach	0.0001	0.0098	9,800%
Gilwern	0.0001	0.0142	14,200%

These changes represented a redistribution of NTS charges with the main beneficiaries being large directly connected loads to the NTS situated outside the geography of WWU.

Consequently since March 2016 we have been forecasting significant rises in Exit Capacity charges from April 2018 and a period of volatility thereafter. This has been communicated via both the Distribution Charging Managers Meetings chaired by the Joint Office and our published Revenue Forecasts (MOD186).

1.2. Changes between Indicative and Final pricing statements

The prices have been set to recover our Allowed Revenue for 2018/19 in accordance with the RIIO GD1 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 to collect: Our final charges are lower on average than those presented at our Indicative statement in October 2017

	Forecast collection for 2018/19 (£'m)	Forecast allowance for 2018/19 (£'m)	Delta required to be resolved (£'m)	Price change required
Transportation	380.1	381.6	1.5	0.4%
Exit Capacity	26.5	47.7	21.2	80.0%
At Final	406.6	429.3	22.7	5.6%
At Indicative	400.8	428.5	27.7	6.9%
Change since indicative	5.8	0.8	-5.0	-1.3%

Our forecast collection has increased by £5.8m (1%), a result of movements in assumed AQ for the December Snapshot. This also accounts for expected changes resulting from the data fixes occurring as part of the Unidentified Gas (UiG) work streams, which have resulted in an increased chargeable base.

The 2018/19 allowance has increased by a total of £0.8m. This comprises:

- £0.7m which is expected to be collected on behalf of the Supplier of Last Resort (SoLR) claim to be made in January 2018;
- £0.8m arises from Ofgems AIP direction which was required to publish a Cost of Debt index of 2.03% against our internal forecast of 1.95%; and
- A £0.7m reduction by including the hand back of monies collected from our theft of gas recoveries from 2016/17.

As the increase in forecast collection exceeds the increase in forecast allowance, the resulting price change required is lower.

1.3. 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 a number of 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).

1.4. 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.

1.5. Distribution Price Control Formula – RIIO GD1

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. Should the DN operator earn more or less than the maximum permitted revenue in any formula year, a compensating adjustment is made two years hence. 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 2018/19 are set in accordance with the current forecast maximum allowed revenue for both transportation income and exit capacity income. Section 2 sets out in more detail how our allowance is derived.

1.6. 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 2018/19 has been decreased by £0.6m in respect of net recoveries made in 2016/17 by WWU under its licence obligation.

2.0 Allowed Revenue

2.1. Maximum Allowed Revenue

RIIO 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).

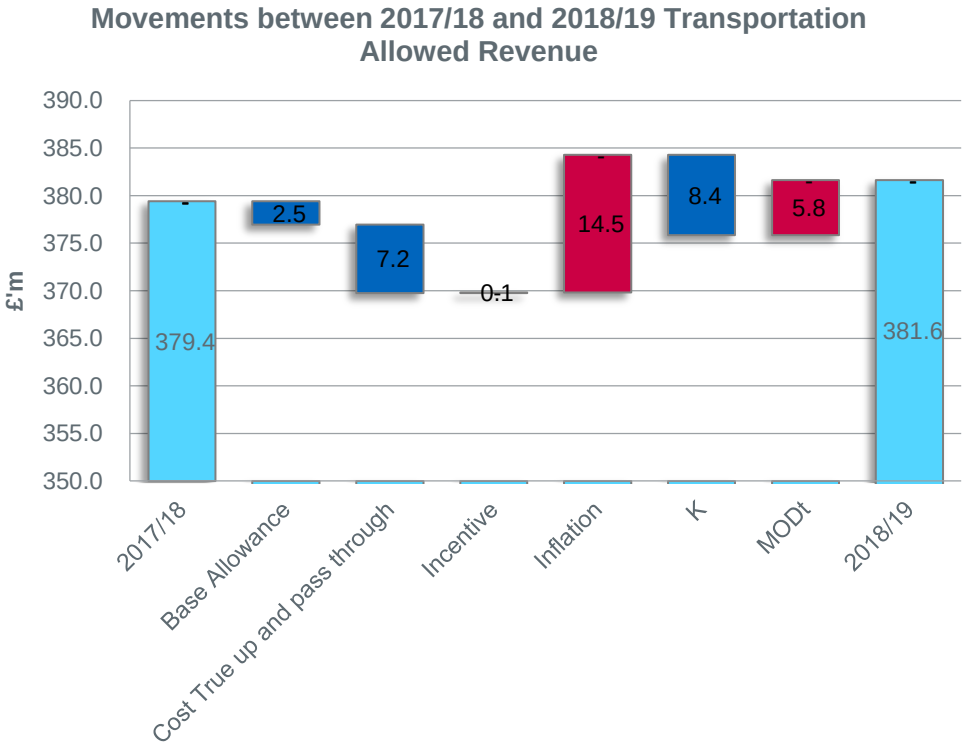
	Forecast allowed revenue for 2017/18 (£'m)	Forecast allowed revenue for 2018/19 (£'m)	Movement (£'m)	Movement (%)
Transportation	379.4	381.6	2.2	1%
Exit Capacity	23.8	47.7	23.9	100%
Total	403.2	429.3	26.1	6%

Final allowed revenue is not known until the completion of the relevant year. This is because some licence terms will not crystallise until the completion of the relevant year. Currently 2018/19 allowed revenue forecast includes an assumption for:

1. NIA (National Innovation Allowance) which is allowed based on the minimum of either 90% of incurred expenditure in the year or 90% of 0.5% of base allowance.

2.2. Transportation Revenue (£381.6m)

Our forecasted maximum allowed transportation revenue increases by £2.2m in 2018/19.



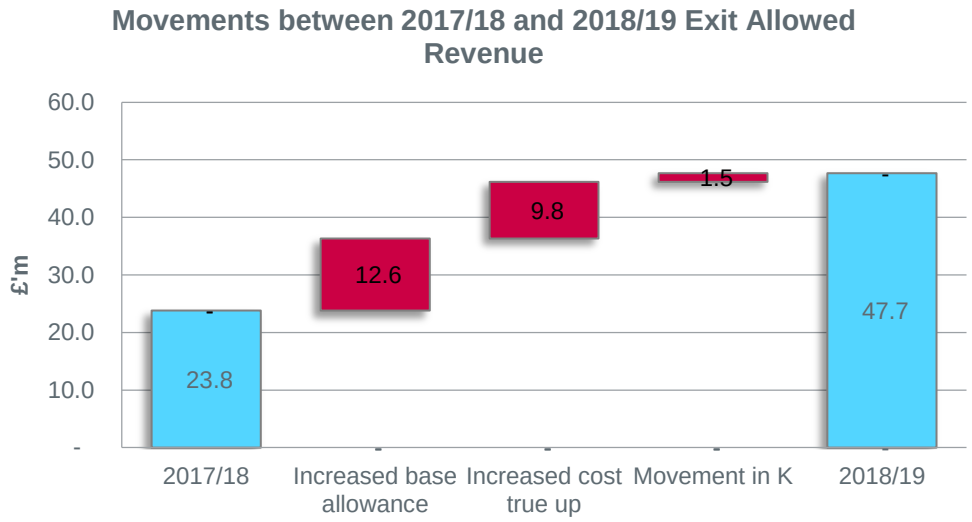
Whilst the overall movement of £2.2m can be seen as a relatively small movement year on year, the underlying drivers which make up the network allowance have individually moved. Most notably 2018/19 sees:

1. A larger reduction through K, a result of an over recovery in 2016/17
2. Increased inflation taking final proposals from 2009/10 prices to current prices. This reflects the trend towards 3% inflation in the UK and is representative of the cost inflation a network would anticipate to experience.
3. A higher give back from MODt reflecting predominantly the reductions in cost of debt compared to at final proposals
4. Increased reduction from cost true ups, reflecting the TRUt calculation which adjusts for the movement in inflation between price setting and final allowance calculation.

2.3. Exit Capacity Revenue (£47.7m)

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 DNs. 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 2018/19 our allowances double to £47.7m:



In May 2016 NTS published its final prices for October 2016 and forecast thereafter. These prices were significantly in excess of both the historically published indicatives and our allowances. The consequence of this is that those higher costs which were imposed and paid for by ourselves ultimately work their way to the end consumer through the lagged cost true up mechanism (9.8m). Additionally, as the NTS forecast these higher charges would continue, Ofgem permitted an increase in the base allowance for NTS Exit, directed through the Annual Iteration Process (£12.6m). If NTS forecasts remain reliable this would mean that in future years the impact of the cost true up will be reduced.

We continue to work with NTS, and the industry in delivering a more predictable and stable charging regime from the NTS. This should result in a reduction in the volatility of charges to ourselves and consequently passed on through our exit capacity charges two years later. It is expected this new regime for NTS will be effective from October 2019.

3.0 Transportation Charges

3.1. Final Charges from 1 April 2018

	Current Price (effective from 1 April 2017)	Final Prices effective 1 April 2018
LDZ SYSTEM COMMODITY CHARGES	**Pence per kwh**	
UP TO 73,200 KWH PER ANNUM	0.0252	**0.0316**
73,200 KWH - 732,000 KWH PER ANNUM	0.0220	**0.0276**
732,000 KWH PER ANNUM AND ABOVE	0.2555	**0.3201**
	x SOQ ^	
	-0.2775	**-0.2775**
SUBJECT TO A MINIMUM RATE OF	0.0018	**0.0023**

LDZ SYSTEM CAPACITY CHARGES	**Pence per peak day kwh per day**	
UP TO 73,200 KWH PER ANNUM	0.1874	**0.1863**
73,200 KWH - 732,000 KWH PER ANNUM	0.1626	**0.1616**
732,000 KWH PER ANNUM AND ABOVE	1.4559	**1.4472**
	x SOQ ^	
	-0.2513	**-0.2513**
SUBJECT TO A MINIMUM RATE OF	0.0138	**0.0137**

LDZ CUSTOMER CAPACITY CHARGES	**Pence per peak day kwh per day**	
UP TO 73,200 KWH PER ANNUM	0.0992	**0.0994**
73,200 KWH - 732,000 KWH PER ANNUM	0.0039	**0.0039**
732,000 KWH PER ANNUM AND ABOVE	0.0783	**0.0785**
	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	30.8323	**30.8940**
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	32.8297	**32.8954**

	Current Price effective from 1 April 2017	Indicative Prices effective 1 April 2018
EXIT CAPACITY UNIT RATES BY EXIT ZONE	**Pence per peak day kwh per day**	
SW1	0.0119	**0.0213**
SW2	0.0177	**0.0341**
SW3	0.0256	**0.0512**
WA1	0.0172	**0.0333**
WA2	0.0068	**0.0100**

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
$902 \times [(SOQ)^{\wedge -0.834}] \times D + 772 \times (SOQ)^{\wedge -0.717}$

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 Other Charges

4.1. Shared supply meter point arrangements

An allocation service for daily metered supply points with AQs of more than 58,600 mWh per annum is available. This allows up to four (six for Very Large Daily Metered Customers, those with an AQ of more than 1,465,000 mWh/annum) shippers / suppliers to supply gas through a shared supply meter point.

The allocation of daily gas flows between the shippers / suppliers can be done either by an appointed agent or by the transporter.

The administration charges which relate to these arrangements are shown below. Individual charges depend on the type of allocation service nominated and whether the site is telemetered or non-telemetered.

The charges are (expressed as £ per shipper per supply point):

Agent Service

	Telemetered	Non-telemetered
Set-up charge	£107.00	£183.00
Shipper-shipper transfer charge	£126.00	£210.00
Daily charge	£2.55	£2.96

Transporter Service

	Telemetered	Non-telemetered
Set-up charge	£107.00	£202.00
Shipper-shipper transfer charge	£126.00	£210.00
Daily charge	£2.55	£3.05

5.0 LDZ System Entry

5.1. 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 2018/19. Where additional sites are connected which are not currently planned to flow during 2018/19 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) FINAL prices effective 1 April 2018
BROMHAM HOUSE FARM	BROMOS		-0.0679	-0.1012
CANNINGTON BIOMETHANE	CANNOS		-0.0712	-0.1046
BISHOPS CLEEVE BIOMETHANE	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0539	-0.0924
ENFIELD BIOMETHANE	ENFDOS		-0.0250	-0.0554
FIVE FORDS BIOMETHANE	FIVEOS		0.0086 (Charge)	-0.0163
FRADDON	FRADOS	Penare Farm	-0.0545	-0.0875
FROGMARY BIOMETHANE	FROGOS		-0.0593	-0.1012
GREAT HELE BIOMETHANE	HELEOS	Nadder Lane	-0.0250	-0.0591
HELSCOTT FARM	HELSOS		-0.0679	-0.1012
NORTHWICK	NOCKOS		-0.0481	-0.0739
PENNANS FARM	PENSOS		-0.0679	-0.1012
ROTHERDALE	ROTHOS	Vale Green 2	-0.0361	-0.0710
SPITTLES FARM	SPITOS	Bearley Farm	-0.0679	-0.1012
SPRINGHILL BIOMETHANE	SPNGOS		-0.0250	-0.0505
AVONMOUTH WESSEX	WESXOS	Wessex Water	-0.0779	-0.1119
WILLAND	WILLOS		-0.0679	-0.1012
WYKE FARM	WYKEOS		-0.0712	-0.1071
LORDS MEADOW	TBC	Crediton	-0.0679	-0.1012

6.0 Charge Types and Invoice Mapping

6.1. 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

6.2. 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 02920278838 or visit our website:

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