Notification of LDZ Transportation Charges

To apply from
1st April 2019

WALES&WEST UTILITIES

Contents

1.0 Introduction

This publication sets out the Local Distribution Zone (LDZ) transportation charges which will apply from 1st April 2019 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 17.3% comprising:

<table>
<tr><th colspan="5">Average Price Change</th></tr>
<tr><td colspan="5">17.3%
(Indicative: 20.8%)</td></tr>
<tr><th colspan="3">Transportation Income</th><th colspan="2">Exit Capacity</th></tr>
<tr><td colspan="3">Final: 7.2%
(Indicative: 10.3%)</td><td colspan="2">Final: 456.1%
(Indicative: 520.7%)</td></tr>
<tr><th colspan="2">Capacity</th><th>Commodity</th><th colspan="2">Exit Zone</th></tr>
<tr><td rowspan="2">System</td><td rowspan="2">Customer</td><td rowspan="6">Final: 9.6%
(Indicative: 67.9%)</td><td>SW1</td><td>600% (600%)</td></tr>
<tr><td>SW2</td><td>443% (445%)</td></tr>
<tr><td rowspan="4">Final: 7.0%
(Indicative: 8.9%)</td><td rowspan="4">Final: 7.4%
(Indicative: 9.1%)</td><td>SW3</td><td>408% (404%)</td></tr>
<tr><td>WA1</td><td>409% (410%)</td></tr>
<tr><td>WA2</td><td>3200% (3200%)</td></tr>
</table>

For more information about these changes, or our charges, please do not hesitate to contact the pricing team on 02920 278838.

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

Our Exit Capacity charges are increasing by an average of 456.1% (exit capacity accounts for 12% of our total allowed revenue in 2019/20).

In July 2018 NTS published its final prices for October 2018 and forecast thereafter. These prices were significantly less than both the historically published indicatives and our allowances. Those lower costs ultimately work their way to the end consumer through cost true up mechanism, however this is on a two year lag basis.

This results in the collection of our allowances as intended, and a large give back to the shippers in T+2. In order to give this money back as it is being incurred, faster than our allowance intends, WWU adjusted its prices from December 2018. As a result of the price decrease in December 2018, the movement from March 19 to April 19 is greater than would otherwise have been.

If no price change had been implemented in December 2018, the required price change for 2019/20 would be as follows:

	Allowance for 2018/19 (£'m)	Forecast collection for 2019/20 at current charge rates (£'m)	Target collection for 2019/20 (£'m)	Delta required to be resolved (£'m)	Price change required
Exit Capacity Revenue	47.7	49.5	49.0	(0.5)	(1.0)%

For 2019/20 WWU will again seek to collect a lower exit capacity revenue figure than is currently allowed through the current price control. The purpose of this is to pass the benefit of significantly reduced NTS costs from 1 October 2018 onwards, back to its customers faster than would ordinarily occur through the two year true up mechanism.

1.2. Changes between Indicative and Final pricing statements

The prices have been set 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, or plans to collect. Our final charges are lower than those presented at our Indicative statement in October 2018.

	Forecast collection for 2019/20 (£m)	Forecast allowance / target collection for 2019/20 (£m)	Delta required to be resolved (£m)	Price change required
Transportation	386.6	417.2	30.6	7.2%
Exit Capacity	8.9	49.0	40.1	456.1%
At Final	395.5	466.2	70.7	17.3%
At Indicative	386.3	466.4	80.1	20.8%
Change since indicative	9.2	-0.2	-9.4	-3.5%

Our forecast collection has increased by £9.2m (2.4%), a result of increased commodity revenue from October to December than was forecast at the time of indicatives in addition to a change to our AQ assumption for 2019/20. This increases the forecast revenue going forward and is reflected in the reduction in the price increase since indicatives.

The 2019/20 allowance / target collection has decreased by £0.2m since publication of the indicative charges in October 2018, partly as a result of a Supplier of Last Resort Claim direction from Ofgem which has been received since publication of the indicative notice and is now reflected in 2019/20 allowed revenue.

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 2019/20 are set in accordance with the current forecast maximum allowed revenue for transportation income and for exit capacity income, are set to recover less than maximum allowed revenue. 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 2019/20 has been decreased by £0.3m in respect of net recoveries made in 2017/8 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).

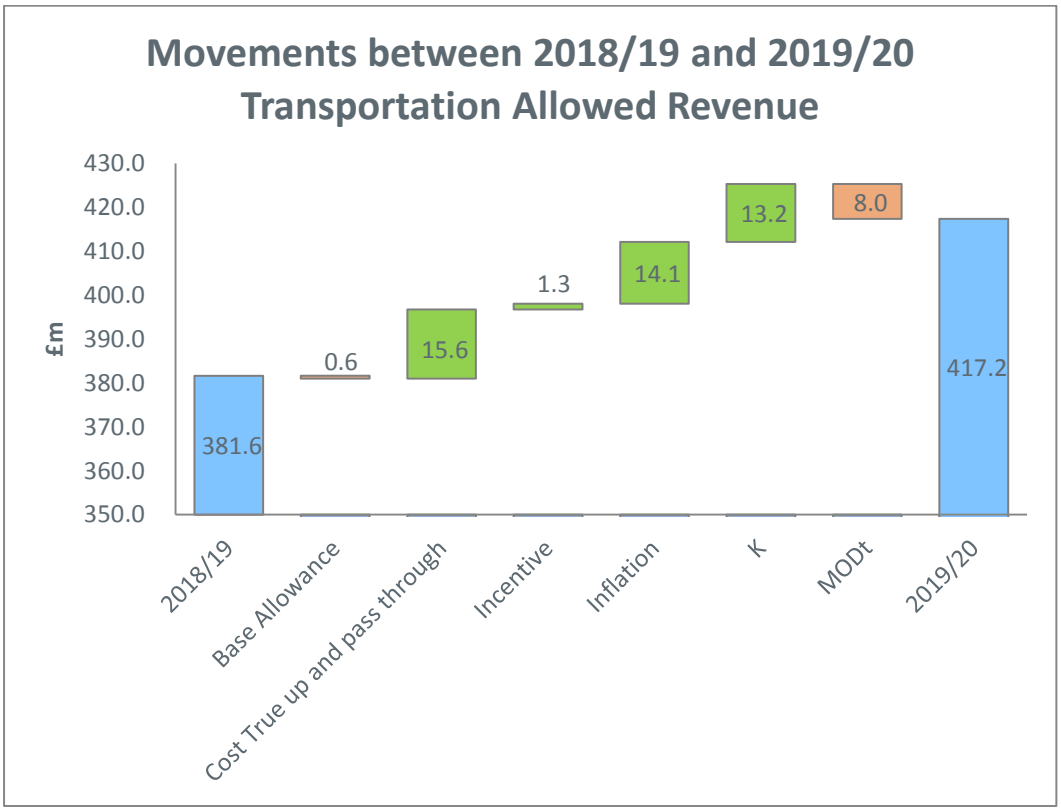
	Forecast allowed revenue for 2018/19 (£m)	Forecast allowed revenue for 2019/20 (£m)	Movement (£m)	Movement (%)
Transportation	381.6	417.2	35.6	9%
Exit Capacity	47.7	57.7	10.0	21%
Total	429.3	474.9	45.6	11%

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 2019/20 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 (£417.2m)

Our forecasted maximum allowed transportation revenue increases by £35.6m in 2019/20.



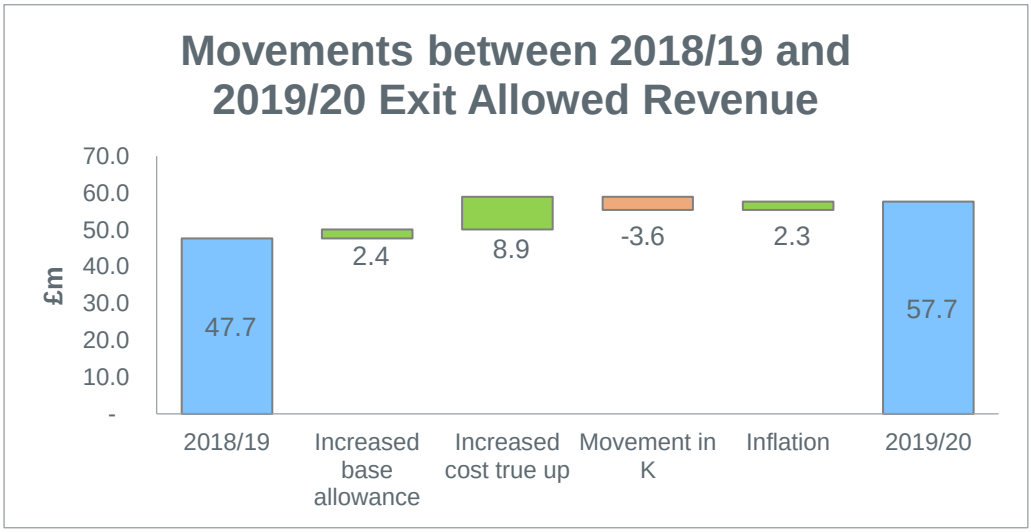
The most notable movements in the underlying drivers which make up the network allowance are:

1. A smaller negative K (which reduces revenue). The large negative K in 2018/19 was a result of a large over recovery in 2016/17.
2. Increased inflation taking final proposals from 2009/10 prices to current prices. This reflects inflation in the UK of over 3% 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 allowance compared to at final proposals.
4. Large increase in business rates costs in 17/18 flow into revenue in 2019/20 through the adjustment for pass through costs.

2.3. Exit Capacity Revenue (£57.7m)

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 2019/20 our allowances increase to £57.7m:



The most significant movement relates to the cost true up. The figure of £8.9m represents the difference between the cost true up from 2016/17 and 2017/18 respectively. 2018/19 includes a half years cost increase we received from NTS in 2016/17 compared to a full year in 2019/20.

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 2019

	Current Price effective from 1 April 2018	Final Prices effective 1 April 2019
LDZ SYSTEM COMMODITY CHARGES	**Pence per kwh**	
UP TO 73,200 KWH PER ANNUM	0.0316	**0.0346**
73,200 KWH - 732,000 KWH PER ANNUM	0.0276	**0.0302**
732,000 KWH PER ANNUM AND ABOVE	0.3201	**0.3508**
	x SOQ ^	
	-0.2775	**-0.2775**
SUBJECT TO A MINIMUM RATE OF	0.0023	**0.0025**

LDZ SYSTEM CAPACITY CHARGES	**Pence per peak day kwh per day**	
UP TO 73,200 KWH PER ANNUM	0.1863	**0.1993**
73,200 KWH - 732,000 KWH PER ANNUM	0.1616	**0.1729**
732,000 KWH PER ANNUM AND ABOVE	1.4472	**1.5485**
	x SOQ ^	
	-0.2513	**-0.2513**
SUBJECT TO A MINIMUM RATE OF	0.0137	**0.0147**

LDZ CUSTOMER CAPACITY CHARGES	**Pence per peak day kwh per day**	
UP TO 73,200 KWH PER ANNUM	0.0994	**0.1068**
73,200 KWH - 732,000 KWH PER ANNUM	0.0039	**0.0042**
732,000 KWH PER ANNUM AND ABOVE	0.0785	**0.0843**
	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	30.8940	**33.1802**
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	32.8954	**35.3297**

	Price effective from 1 April 2018 to December 2018	Price effective from December 2018 to 31 March 2019	Final Prices effective 1 April 2019
EXIT CAPACITY UNIT RATES BY EXIT ZONE	Pence per peak day kwh per day		
SW1	0.0213	0.0018	**0.0126**
SW2	0.0341	0.0076	**0.0413**
SW3	0.0512	0.0093	**0.0472**
WA1	0.0333	0.0107	**0.0545**
WA2	0.0100	0.0001	**0.0033**

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 2019/20. Where additional sites are connected which are not currently planned to flow during 2019/20 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 2019
BROMHAM HOUSE FARM	BROMOS		-0.1012	-0.1061
CANNINGTON BIOMETHANE	CANNOS		-0.1046	-0.1096
BISHOPS CLEEVE BIOMETHANE	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0924	-0.0970
ENFIELD BIOMETHANE	ENFDOS		-0.0554	-0.0565
FIVE FORDS BIOMETHANE	FIVEOS		-0.0163	-0.0161
FRADDON	FRADOS	Penare Farm	-0.0875	-0.0920
FROGMARY BIOMETHANE	FROGOS		-0.1012	-0.1061
GREAT HELE BIOMETHANE	HELEOS	Nadder Lane	-0.0591	-0.0603
HELSCOTT FARM	HELSOS		-0.1012	-0.1061
ROTHERDALE	ROTHOS	Vale Green 2	-0.0710	-0.0727
SPITTLES FARM	SPITOS	Bearley Farm	-0.1012	-0.1061
SPRINGHILL BIOMETHANE	SPNGOS		-0.0505	-0.0515
PENNANS FARM	TBC		-0.1012	-0.1061
LORDS MEADOW	TBC	Crediton	-0.1012	-0.1061
NORTHWICK	NOCKOS		-0.0739	-0.0756
AVONMOUTH WESSEX	WESXOS	Wessex Water	-0.1119	-0.1172
WILLAND	WILLOS		-0.1012	-0.1061
WYKE FARM	WYKEOS		-0.1071	-0.1122
EVERCREECH BIOMETHANE	EVEROS		-0.1114	-0.1167

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 02920 278838 or visit our website:

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