


Indicative Notice of Change to Transportation Charges



From 1st April 2022



1 November 2021



WALES&WEST
UTILITIES

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Introduction

This notice provides indicative levels of gas transportation charges that will apply from the 1st April 2022, in line with our GT Licence requirement to provide 150 days' notice of such proposals.

The definitive notice of distribution transportation charges from the 1st April 2022 will be published by the 1st February 2022, in accordance with the two months' notice requirement within the Uniform Network Code.

Our 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).

RIIO-GD2 began on the 1st April 2021 and we are currently in the process of agreeing our revenue allowances with the Regulator for 2022/23 as part of the 2021 Annual Iteration Process (AIP). In line with the provisions set out in Special Condition 8.2 of our RIIO-GD2 Gas Transporter Licence, the Price Control Financial Model (PCFM), which calculates our allowed revenues, will be published by Ofgem on the 30th November 2021. The forecast allowed revenues presented in this notice are on the basis of the latest draft PCFM submitted to Ofgem on the 1st October 2021, as part of the 2021 AIP.

Transportation Revenue

	Allowed revenue for 2021/22 (£'m)	Forecast collection for 2022/23 at current charge rates (£'m)	Forecast allowed revenue for 2022/23 (£'m)	Delta required to be resolved (£'m)	Price change required
<i>Nominal values</i>					
Transportation Revenue	418.9	416.2	538.2	122.0	29.3%

Allowed revenue for 2021/22 is £418.9m. If transportation charge rates were not adjusted in 2022/23, we would collect a forecast of £416.2m. Forecast allowed revenue for 2022/23 is £538.2m which reflects an increase of £119.3m upon the previous year and a variance to forecast collection at the current charge rates of £122.0m.

Exit Capacity

<i>Nominal values</i>	Allowed revenue for 2021/22 (£'m)	Forecast collection for 2022/23 at current charge rates (£m)	Allowance for 2022/23 (£m)	Delta required to be resolved (£m)	Price change required
Exit Capacity Revenue	28.4	27.5	46.3	18.8	68.5%

Allowed revenue for 2021/22 is £28.4m. If exit capacity charge rates were not adjusted in 2022/23, we would collect a forecast of £27.5m. Forecast allowed revenue for 2022/23 is £46.3m which reflects an increase of £17.9m upon the previous year and a variance to forecast collection at the current charge rates of £18.8m. The allowed revenue in 2022/23 is made up of our base allowance plus the cost true up and correction factor from 2020/21, and the forecast correction factor from 2021/22. The base allowance in 2022/23 is calculated using the latest published final and indicative price information from National Grid NTS.

The increase in allowed revenue in 2022/23 compared with 2021/22 largely relates to a large negative cost true up from 2019/20 of -£25.1m which fed into 2021/22's allowed revenue. We increased our 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 offset the negative cost true up by £9.2m, giving money back faster than our allowance intended and creating a more stable charging profile year on year.

Indicative Transportation Charges

In order to collect the estimated Allowed Revenue, for 2022/23 of £584.4m, prices are forecast to change as follows:

	Forecast Allowed Revenue 2022/23 £m	Indicative Price Change on 1 April 2022
Transportation	538.2	29.3% increase
Exit Capacity	46.3	68.5% increase
Total	584.4	31.6% increase

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). Our 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%	

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 retain cost reflectivity in their charging. The specific price increases required to maintain the collection apportionment required are:

Total Revenue				
31.6%				
Transportation Revenue			Exit Capacity	
29.3%			68.5%	
Capacity		Commodity	By Exit Zone	
System	Customer	60.3 %	SW1	0.0202
			SW2	0.0323
			SW3	0.0216
			WA1	0.0260
			WA2	0.0277
28.9%	27.4%			



Reason for the price change

In setting network charges each network must consider:

1. The movement in allowed revenue year on year.
2. Changes to the chargeable base which have occurred over the past charging year and forecast to occur in the next.

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

Allowed Revenue Movement

		2021/22 (£'m)	2022/23 (£'m)	Change (£'m)	Commentary
Fast Money	18/19 prices	107.6	104.3	-3.3	Reflects the profile of totex expenditure forecast year on year.
Depreciation and Return	18/19 prices	182.7	184.3	1.5	Depreciation increases each year as more totex is capitalised, this is offset by a reduction in return on RAV due to the reducing allowed return on debt.
Pass through	18/19 prices	100.6	198.1	97.5	The increase relates to the inclusion of £93.2m for SOLR claims in 2022/23, in addition to a higher level of shrinkage costs due to the recent increases in gas prices.
Other	18/19 prices	31.5	17.6	-13.9	The difference is made up of a £6m reduction in equity issuance allowance and a large reduction to our tax allowance as a result of super deductions for eligible capital expenditure which were processed as a tax trigger event in the PCFM.
Uplift to Nominals		22.2	59.9	37.7	Inflation in this forecast uses the October 2021 OBR forecast as a basis.
AIP Adjustment Term	Nominals	0	16.6	16.6	No AIP adjustment term in 2021/22 as this was the first year of RIIO GD2 therefore the first set of forecasts. The AIP adjustment in 2022/23 reflects the difference in the latest forecast allowances for 2021/22 and those used for price setting in January 2021.
Legacy Allowed Revenue	Nominals	-1.8	0.1	1.9	2021/22 legacy allowed revenue included a large negative cost true up for exit capacity which is not present in 2022/23. This is offset by the reversal by Ofgem of certain items claimed in earlier years which are the subject of the current CMA appeal, and therefore at the present time under the CMA's jurisdiction.
'K'	Nominals	4.5	3.5	-1.0	Reflects under recoveries in 2020/21 and 2021/22.
Total Allowed Revenue		447.3	584.4	137.1	
Of which					
Transportation	Nominals	418.9	538.2	119.3	
Exit Capacity	Nominals	28.4	46.3	17.9	

Uncertainties and assumptions

There are a number of movements that can occur between these estimates and the final values utilised in final price setting by 1st February 2022. These include:

AIP 2021

Our indicative charges are based on our latest submission (Dry Run 2) of the 2021 AIP which was submitted to Ofgem on the 1st October 2021, updated for forecast SOLR pass through claims and the October OBR inflation forecast.

The £104.3m (nominal prices) forecast that has been included in respect of SOLR claims is based on preliminary figures provided by Ofgem based on initial estimates of claims that they expect to receive between now and the end of the calendar year. Discussions with Ofgem in relation to the processing of SOLR claims are ongoing so the final amount and timing of these claims is yet to be determined. Whilst we have included these preliminary SOLR forecasts in our indicative charges for 2022/23, we await formal direction from Ofgem in relation to any SOLR claims for revenue charging within 2022/23 in the context of the regulatory licence. Until resolution of any such formal direction is achieved significant uncertainty on this forecast will prevail.

There could be further changes to the forecast allowed revenue used to calculate our indicative price change following Ofgem's review of our submission. Forecast allowed revenues will be updated with finalised figures for the 60-day pricing notice due to be published on the 1st February 2022. These may include updates for the following:

- Final forecast of bad debt in relation to the non-collection of transportation charges; and
- Updates to forecast shrinkage costs given the current volatility of the wholesale gas market. Shrinkage costs are treated as pass through expenditure within the PCFM

Chargeable Base

A network demand snapshot is provided by Xoserve each October and used to determine the indicative price change for the upcoming regulatory year. For the final price change calculations, a snapshot is provided by Xoserve in December and any significant variations between the two snapshots would be adjusted for in the final 60-day notice of charges.

Current and Indicative Charges from 1st April 2022

	Current Price effective from 1 st April 2021	Indicative Price effective from 1 st April 2022
LDZ SYSTEM COMMODITY CHARGES	Pence per kwh	
UP TO 73,200 KWH PER ANNUM	0.0349	0.0559
73,200 KWH - 732,000 KWH PER ANNUM	0.0305	0.0489
732,000 KWH PER ANNUM AND ABOVE	0.3389	0.5671
	x SOQ ^	
	-0.2775	-0.2775
SUBJECT TO A MINIMUM RATE OF	0.0025	0.0040

	Pence per peak day kwh per day	
LDZ SYSTEM CAPACITY CHARGES		
UP TO 73,200 KWH PER ANNUM	0.1993	0.2572
73,200 KWH - 732,000 KWH PER ANNUM	0.1729	0.2231
732,000 KWH PER ANNUM AND ABOVE	1.5485	1.9980
	x SOQ ^	
	-0.2513	-0.2513
SUBJECT TO A MINIMUM RATE OF	0.0147	0.0189

	Pence per peak day kwh per day	
LDZ CUSTOMER CAPACITY CHARGES		
UP TO 73,200 KWH PER ANNUM	0.1044	0.1330
73,200 KWH - 732,000 KWH PER ANNUM	0.0041	0.0052
732,000 KWH PER ANNUM AND ABOVE	0.0824	0.1050
	x SOQ ^	
	-0.2100	-0.2100

	Pence per day	
LDZ CUSTOMER FIXED CHARGES		
73,200 KWH - 732,000 KWH PER ANNUM - BI ANNUAL READ SITES	32.4201	41.5107
73,200 KWH - 732,000 KWH PER ANNUM - MONTHLY READ SITES	34.5203	44.1999

EXIT CAPACITY UNIT RATES BY EXIT ZONE	Pence per peak day kwh per day	
	Current Price effective from 1 st April 2021	Indicative Price effective from 1 st April 2022
SW1	0.0110	0.0202
SW2	0.0181	0.0323
SW3	0.0125	0.0216
WA1	0.0150	0.0260
WA2	0.0178	0.0277



Indicative LDZ System Entry Commodity Charge for Distributed Gas

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 st April 2022
Bromham House Farm	BROMOS		-0.0537	-0.1299
Cannington Biomethane	CANNOS		-0.0573	-0.1337
Bishops Cleeve Biomethane	CLEEOS	Grundon Landfill / Wingmoor Farm	-0.0443	-0.1201
Enfield Biomethane	ENFDOS		-0.0204	-0.0690
Five Fords Biomethane	FIVEOS		0.0214	-0.0254
Fraddon	FRADOS	Penare Farm	-0.0391	-0.1147
Frogmary Biomethane	FROGOS		-0.0537	-0.1299
Great Hele Biomethane	HELEOS	Nadder Lane	-0.0243	-0.0731
Helscott Farm Biomethane	HELLOS		-0.0537	-0.1299
Rotherdale	ROTHOS	Vale Green 2	-0.0371	-0.0864
Spittles Farm	SPITOS	Bearley Farm	-0.0537	-0.1299
Springhill Biomethane	SPNGOS		-0.0152	-0.0636
Pennans Farm	TBC		-0.0537	-0.1299
Northwick Biomethane	NOCKOS		-0.0402	-0.0897
Avonmouth Wessex	WESXOS	Wessex Water	-0.0652	-0.1419
Willand Biomethane	WILLOS		-0.0537	-0.1299
Wyke Farm	WYKEOS		-0.0599	-0.1365
Evercreech Biomethane	EVEROS		-0.0646	-0.1414
Trowbridge Biomethane	TRWBOS		-0.0273	-0.0763
Absl Swindon	ABSLOS		-0.0391	-0.1147

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 20 sites located within our network. Should further sites be connected during the charging year a separate statement will be issued specific to those new connections.

Further information

If you have any further queries or require any further details on this notice, please contact Smitha Coughlan, Pricing and Regulation Manager: Smitha.Coughlan@wwutilities.co.uk.

