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Date: 12 October 2012

Dear Leteria

Approval of revised Connection Charging Methodology 4B (Annex F): Wales and West Utilities Limited

On 14 September 2012, you submitted to the Gas and Electricity Markets Authority us a modification to your connection charging methodology. The modification adds a note to the description of the economic test (Annex F) to clarify the treatment of the Exit Capacity Network (ECN) transportation charge introduced on 1 October 2012.

Having reviewed the modification, we have decided not to veto it. This letter sets out the background and explains the reasons for our decision.

Background

Gas Distribution Economic Test

The economic test is a financial assessment tool that ensures that GDNs (Gas Distribution Network) meet their obligations under the Gas Act 1986 to develop and maintain an efficient and economical pipeline system and to comply with any reasonable request to connect to their system any premises or any pipeline system operated by an authorised transporter.

The economic test is used to identify new requests for capacity on the gas distribution network where the level of investment would be considered "uneconomic". The test compares the cost of distribution network reinforcement and additional operating costs of accommodating the new load with the additional distribution transportation revenue from the load.

Changes to Exit capacity charges

Following changes to the National Transmission System (NTS) Exit Capacity regime from 1 October 2012, the charging methodology will change so as to introduce a new ECN transportation charge. There are no further changes to the GDN transportation charges.

Revision to Wales and West's Charging Methodology 4B Annex F

Following the introduction of the new ECN transportation Charge, you have inserted a paragraph under Annex F (description of economic test) to clarify that the cost associated with additional exit capacity bookings and the revenue from the new ECN charge are excluded from the Gas Distribution Economic Test. This is because Gas Distribution

Networks are allowed to fully recover the costs, and revenue and costs are therefore assumed to be equal with no cost impact for the individual load.

This addition does not alter the connection charging methodology, it merely provides clarification of the treatment of the ECN charge.

Our decision

On 14 September 2012, you submitted to us this modification to Wales and West Utilities connection charging methodology, along with a modification report, to the Authority. Having reviewed the revised methodology and the modification report, we are satisfied that it would better achieve the relevant objectives set out in Standard Licence Condition (SLC)4B paragraph 5 (a), (c) and (d) and that its impact on the other relevant objectives is neutral. We are also satisfied that not vetoing the modification is consistent with our principal objective and statutory duties.

SLC 4B paragraph 5 (a) Compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the license.

The modification clarifies the treatment of the ECN charge for the purposes of the economic test.

SLC 4B paragraph 5 (c) Compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit.

The modification clarifies how the new charge is treated and that it reflects the costs incurred by Wales and West Utilities in its transportation business.

SLC 4B paragraph 5 (d) so far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business.

The modification updates Wales and West Utilities's charging methodology to reflect the new exit capacity arrangements which came into effect on 1 October 2012.

Decision Notice

In accordance with Standard Condition 4B of the Gas Transporters' licence, the Authority has decided not to veto this modification of the connection charging methodology of Wales and West Utilities.

Yours sincerely



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose