### To the Company Secretary:

Wales & West Utilities Limited (Company Number: 05046791)

Directions issued by the Gas and Electricity Markets Authority to Wales & West Utilities Limited under the Special conditions of its gas transporter licence in respect of the Annual Iteration Process for the GD1 Price Control Financial Model

#### **WHEREAS**

- 1. Wales & West Utilities Limited ('the licensee') is the holder of a gas transporter licence ('the licence') granted under section 7 of the Gas Act 1986 that includes Special Conditions.
- 2. For the purposes of these directions:
  - (a) the expression 'Formula Year t' has the same meaning as is given for it in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions) of the licence and references to Formula Year t-1 are to be construed accordingly; and
  - (b) Formula Year t is the Formula Year that commences on 1 April 2015 and ends on 31 March 2016 ('Formula Year 2015/16').
- 3. Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model) requires the Gas and Electricity Markets Authority to:
  - (a) carry out the Annual Iteration Process for the GD1 Price Control Financial Model; and
  - (b) direct the value of the term MOD for Formula Year t;

by 30 November in Formula Year t-1.

- 4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the GD1 Price Control Financial Model that forms part of Special Condition 2A ( Governance of the GD1 Price Control Financial Instruments) of the licence:
  - (a) Special Condition 1D (NTS Exit Capacity Cost Adjustment) in respect of AEx values;
  - (b) Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) in respect of ALSC values;
  - (c) Special Condition 3A (Legacy price control adjustments) in respect of LAR values, (and the component term values PAR, TAR, FAR, CAR, SAR, IFIAR and IAEAR) and LRAV values, (and the component term values FRAV, CRAV, MRAV and SRAV);
  - (d) Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments) in respect of ALC, AOC, ACO and ARE values;
  - (e) Special Condition 3C (Specified financial adjustments) in respect of EDE, APFE, TTE, TGIE and CDE values;
  - (f) Special Condition 3D (The Innovation Roll-out Mechanism) in respect of IRM values;
  - (g) Special Condition 3E (Mains and Services Replacement Expenditure) in respect of RE values; and
  - (h) Special Condition 3F (Arrangements for the recovery of uncertain costs) in respect of IAECCB, IAEEPS, IAELLC, IAESW, IAESM, IAECA and IAEFP values.

- 5. Each of the Special Conditions referred to in paragraph 4:
  - (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and, where applicable,
  - (b) specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the GD1 Price Control Financial Handbook containing that methodology.
- 6. The reason for these directions is to revise the PCFM Variable Values as used in the Annual Iteration Process for the GD1 Price Control Financial Model (as each of those terms is defined in Special Condition 1A). The Annual Iteration Process is used to calculate values for the term MOD, that are used in the formulae set out in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- 7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 13 November 2014 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November 2014 in Formula Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days.
- 8. The Authority received no representations.

**NOW** the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values referred to in paragraph 4 are to be revised as shown in Schedule 1 to this direction; and
- the term MOD for the licensee for Formula Year 2015/16 is to take the value £-9.4m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these direction (in bold font) and the values that have not been revised under these directions.

This constitutes notice of the reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.

Ian Rowson

**28 November 2014** 

Associate Partner, Regulatory Finance, Duly authorised on behalf of the Gas and Electricity Markets Authority

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# Schedule 1 to Directions issued by the Gas and Electricity Markets Authority to Wales and West Utilities Ltd dated 28 November 2014

Wales and West Utilities Ltd	Proposed Revised PCFM Variable Values										
PCFM Variable Value names and determination provision	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19	2019- 20	2020- 21			
AEx Special Condition 1D	23.0	No revision									
ALSC Special Condition 1F	8.8	No revision									
LAR Parts A and B of Special Condition 3A	6.4										
LRAV Parts A and B of Special Condition 3A	2.2										
ALC Part B of Special Condition 3B	22.6	No revision									
AOC Part B of Special Condition 3B	22.5	No revision									
ACO Part B of Special Condition 3B	78.7	No revision									
ARE Part B of Special Condition 3B	61.8	No revision									
EDE Part A of Special Condition 3C	No revision	No revision	7.2	7.2	7.2	No revision	No revision	No revision			
APFE Part A of Special Condition 3C	0.9	No revision									
TTE Part B of Special Condition 3C	No revision	No revision	-0.2	No revision	No revision	No revision	No revision	No revision			
TGIE Part B of Special Condition 3C	0.0	No revision									
CDE Part C of Special Condition 3C	No revision	No revision	2.55%	No revision	No revision	No revision	No revision	No revision			
IRM Part F of Special Condition 3D	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision			

Wales and West Utilities Ltd	Proposed Revised PCFM Variable Values										
PCFM Variable Value names and determination provision	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19	2019- 20	2020- 21			
RE Part B of Special Condition 3E	4.2	No revision									
IAECCB Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision			
IAEEPS Part D of Special Condition 3F	No revision	No revision	No revision	No No revision		No No revision		No revision			
IAELLC Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision			
IAESW Part D of Special Condition 3F	No revision	No revision	No revision	No No revision		No revision	No revision	No revision			
IAESM Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision			
IAECA Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision			
IAEFP Part D of Special Condition 3F	1.3	No revision									

### Wales and West Utilities Limited

Component term values used to determine the values for LAR and LRAV in the table above:

PAR -0.8 = TAR = 2.3 CAR 4.6 = FAR 0.2 = SAR 0.0 = IFIAR = 0.0 IAEAR =0.0

CRAV = 2.0 MRAV = 0.0 FRAV = 0.3 SRAV = 0.0

## Schedule 2 to Directions issued by the Gas and Electricity Markets Authority to Wales and West Utilities Limited dated 28 November 2014

PCFM Variable Values Table for Wales and West Utilities Limited with values revised under the direction shown in bold font

M. I. O.M.													
Wales & West	Parameter	Licence condition	. Unite	Term	Constant	Annual values							
	PCFM year ending	LICENCE CONGIGOR	I OIIIG		31 Mar 2016			31 Mar 2016	21 Mar 2017	21 Mar 2010	21 Mar 2010	21 Mar 2020	21 Mar 20
	remi yezi elidilig				31 1141 2016	31 Mar 2014	31 Mar 2013	31 Mar 2016	31 Mar 2017	31 Mar 2010	31 Mar 2017	31 Mar 2020	or mar 20
CFM Variable Values Table						_							
	Allowed percentage cost of debt	3C	annual real %	CDE		2.92%	2.72%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55
	Actual load related capex	3B	£m 09/10 price	s ALC		22.6							
	Actual other capex	3B	£m 09/10 price	es AOC		22.5			-				
	Actual controllable opex	3B	£m 09/10 price	es ACO		78.7							
	Actual replacement expenditure	3B	£m 09/10 price	es ARE		61.8							
	Allowed uncertain costs (Enhanced physical site security)	3F	£m 09/10 price	es IAEEPS									
	Allowed uncertain costs (Specified street work costs)	3F	£m 09/10 price	es IAESW		0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.
	Allowed uncertain costs (Connection charging boundary change costs)	3F	£m 09/10 price	es IAECCB									
	Allowed uncertain costs (Fuel poor network extension scheme)	3F	£m 09/10 price	es IAEFP		1.3	1.3	1.3	1.3	1.0	1.0	1.0	
	Allowed uncertain costs (Central agent)	3F	£m 09/10 price	es IAECA									
	Allowed uncertain costs (Smart metering roll out costs)	3F	£m 09/10 price	es IAESM									
	Allowed uncertain costs (Mains and services replacement expenditure)	3E	£m 09/10 price	es RE		4.2	1.6		1.0	2.5	2.0	1.2	
	Allowed uncertain Costs (Large load connection costs)	3F	£m 09/10 price	es IAELLC						-	-		
	Allowed innovation roll-out mechanism	3D	£m 09/10 price	es IRM						-	-		
	NTS Exit Capacity costs	ID	£m 09/10 price	es AEx		23.0	23.1	23.1	23.1	23.1	23.1	23.1	23.
	Shrinkage costs	IF	£m 09/10 price	es ALSC		8.8	8.7	8.7	8.5	8.4	8.3	8.1	7.
	Tax liability allowance adjustments - gearing/interest costs	3C	£m nominal	TGIE		0.0				-	-		
	Tax liability allowance adjustments - driven by tax trigger events	3C	£m 09/10 price	es TTE				(0.2)		-	-		
	Pension scheme administration and Pension Protection Fund Levy	3C	£m 09/10 price	es APFE		0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.
	Pension scheme deficit revenue allowances	3C	£m 09/10 price	es EDE		7.0	7.0	7.2	7.2	7.2	7.2	7.2	7.
	Legacy price control allowed revenue adjustment	3A	£m 09/10 price	es LAR		6.4							
	Legacy price control RAV additions adjustment	3A	£m 09/10 price	s LRAV		2.2							