



Shippers, Transco, potential DN purchasers and other interested parties

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Dear Colleague,

Application of Special Condition 18

Ofgem has received an enquiry regarding the application of Special Condition 18 of Transco plc's gas transporter licence in the event of the sale of one or more of its gas distribution networks.

Special Condition 18 relates to the conveyance of gas to independent systems. There are four independent LNG networks in Scotland (Wick, Campbeltown, Thurso and Oban) and four independent LPG networks across Great Britain (Stornoway, Llanwrtyd Wells, Llanfyllin and Colden). None of these networks are connected to the main UK gas transportation system. Instead, the LNG networks are supplied with gas that is transported to it by road in tankers carrying natural gas in liquefied form, whilst the LPG networks are supplied with propane.

In summary, Special Condition 18 states that the average charge for conveyance to customers connected to these independent systems should be no more than the average charges for all conveyance to premises in Great Britain supplied with gas at a similar rate. The full wording of Special Condition 18 is provided in Attachment 1.

Ofgem will be considering the future application of Special Condition 18 in the forthcoming weeks. Any proposed amendments to Special Condition 18 will be considered as part of the DN sales licence work-stream. Ofgem will then inform interested parties when a decision has been reached on this matter.

If you have any questions regarding this letter please do not hesitate to contact me on the above number. Mark Feather on extension 7437 will also be pleased to help.

Yours sincerely

Sonia Brown
Director of Transportation

**Attachment 1: Special Condition 18 of licence granted to Transco plc on 28 September 2001
(as amended)**

Special Condition 18. Conveyance to Independent Systems

1. This condition shall apply to the conveyance of gas to -
 - (a) any premises which were connected to an independent system on the appointed day; and
 - (b) any premises of domestic customers subsequently connected, in pursuance of section 10 of the Act, to an independent system which was in existence on that day,and such premises as aforesaid are for the purposes of this condition referred to as “relevant premises”.
2. Where the gas which was conveyed by the independent system on the appointed day consisted principally of methane, the licensee shall provide arrangements for the conveyance of gas to relevant premises connected to the system from the principal pipeline system of the licensee, and its average charges for such conveyance shall be no more than the average charges for all conveyance to premises in Great Britain supplied with gas at a similar rate, connected otherwise than to independent systems, which the licensee charged on the appointed day, adjusted in line with the Retail Price Index from that date.
3. Where the gas which was conveyed by the independent system on the appointed day consisted wholly or mainly of propane or butane or of a combustible mixture of propane or butane with air, the licensee shall provide arrangements for the conveyance of propane or butane (according to the composition of the gas being conveyed in the system) from any bulk supply point (whether or not in Great Britain) notified by the licensee to the Authority and approved by him, to relevant premises connected to the system (including, in such conveyance, the mixture of the propane or butane with air to meet the requirements of the system) and shall charge for such conveyance no more than the amount which would have applied had paragraph 2 been applicable less an amount assessed by it each year to be equal to the difference between its reasonable estimates of the average price for liquefied petroleum gases supplied to large industrial

customers in Great Britain and the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.

4. In this condition references to “charges” for conveyance shall exclude references to supplemental charges within the meaning of standard condition 4C (Charging of Gas Shippers - Supplemental Connection Charges).
5. Standard condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) shall apply for the purpose of adjustments to be made by reference to the Retail Price Index.

