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Dear Sir/Madam

Guidance for implementation of the RPC price-cap

1. Ofgem published draft guidance on 20 November 2003 setting out the proposed approach to calculate the RPC price-cap. Ofgem received seven responses to the draft guidance. The points raised are considered below and where appropriate have been reflected in the enclosed guidance. The guidance will be kept under review to ensure it remains proportional, continues to protect the interests of consumers and reflects industry experience of the RPC price-cap. Consultation on the arrangements for enforcement will be set out in the early part of 2004.

Entry-point

2. Few comments were raised in respect of entry-point. Some respondents suggested that the guidance was not clear on the basis for selection of entry-point and subsequently caused some confusion. This has now been addressed in the drafting. For the avoidance of doubt, the IGT must select the entry-point approach they wish to use for all premises that form part of a specific binding contract within 60 days of that contract being made. In the absence of such a selection the entry point will be the date of connection for each individual premises (NB. the terms 'premises' and 'property' referred to in this guidance mean the premises of an individual consumer).

Property AQ

3. The estimate of annual quantity (AQ) for a property is an important input necessary to calculate the SSP element of Transco's charges for RPC. Respondents raised two main points in respect of property AQ:

- for new domestic properties, some IGTs suggested that RPC should not be implemented until the results of the recent review of NExA AQ values have been finalised;
 - for domestic infill and industrial & commercial (I&C) premises, a number of respondents raised concerns with the 'lock-in' approach to establishing property AQ.
4. Ofgem supports the introduction of revised, more accurate, NExA AQs for use in determining the RPC price-cap for new build domestic premises. However, this is not a sufficient reason to delay providing appropriate price protection to shippers and consumers. Where a revised set of standard AQs are developed and accepted by the industry these will then be adopted for the calculation of RPC on an on-going basis.
5. The 'lock-in' approach for determining AQ was developed specifically to address IGT concerns with certainty of revenue streams, to enable them to assess an appropriate level of investment, and to protect IGTs from significant re-balancing of Transco's charges for premises already connected. Shippers and some IGTs have argued that this is not appropriate for premises where NExA values do not apply or where consumption is likely to vary significantly from one year to the next. As a result Ofgem has adopted a change to the guidance for calculating the RPC price-cap when applied to I&C or domestic infill premises. For these premises the most recent estimate of AQ is used to set the RPC price-cap for the year ahead. Specifically, these changes mean:
- New build domestic premises.** New build domestic premises will be treated as set out in the guidance: that is, AQ once established is fixed. The annual indexing, and floor and ceiling calculations apply to the total annual charge (£ per annum);
- Domestic infill and I&C premises.** For domestic infill and I&C premises, RPC applies to the unit (p/kWh) charges. Floor and ceiling calculations shall also be based on unit charges. Total charges made to shippers will be constrained by the RPC unit charge (p/kWh) multiplied by the relevant assessment of annual quantity for the year ahead.
6. IGTs must make a reasonable estimate of AQ, agreed with the relevant shippers where appropriate, when setting the initial AQ for infill and I&C premises. This initial AQ is used to establish the RPC unit charge price-cap. Subsequently, where the shipper provides actual meter reads these should form the basis of the RPC constrained annual charges. Revisions to AQ shall be forward-looking and not used for reconciliation of the RPC price-cap for the previous period.

Property level charge

7. A respondent opposed property level charging on the basis of administrative difficulty, where verification of actual property type built would be difficult. Other respondents did not raise any significant concerns with this approach. The RPC price cap shall apply to the actual premises connected or reasonably expected to be connected. The type of property is a key revenue driver for transportation charges to new build domestic premises and is a key component of the RPC price-cap. It is therefore important that RPC continues to be based on the property type connected. Once established the total RPC charge, in the case of new build domestic premises, or unit charge, for other types of

premises, is not re-opened but subject to annual indexing and the floor and ceiling mechanism as set out in the guidance.

8. A number of respondents questioned the practicality of Ofgem 'auditing' the actual property types developed and charging band allocated to those premises. As set out in paragraph 1 above the enforcement regime shall be developed, through consultation with relevant parties, in the early part of 2004. The enforcement regime shall aim to put in place appropriate incentives to avoid any consistent or systematic abuse of the RPC price control.

CSEP fully developed AQ

9. Respondents generally supported Ofgem's approach in this area. This means that for new build domestic premises the fully developed CSEP AQs should be estimated using the sum of individual property NExA AQ based on the original development plan that forms part of the binding contractual agreement. The estimate would only be revised where the IGT re-nominates an increased CSEP load to Transco, through the NExA, in respect of that particular development (and then only applied to premises not yet connected). This provides a uniform approach to estimating a relatively stable CSEP AQ and therefore reduces opportunities for gaming.
10. For infill and I&C premises the appropriate estimate of CSEP AQ is the value nominated, via the NExA, to Transco. This reflects the difficulty in establishing standard AQs for these premises as set out in paragraph 5 above.

Further issues

11. Ofgem requested views on three other issues: consumption profiling of transportation charges, use of standard invoices across IGTs, and enforcement of the RPC price-cap. In addition to these some respondents expressed concern that the 1 January 2004 implementation date was too early and does not allow sufficient time to develop appropriate billing systems. These points are addressed below
12. Where respondents commented, there was support for consumption profiling and adoption of standard invoicing. These issues do not form an integral part of the RPC price-cap. However, Ofgem shall support industry developments to adopt such an approach, particularly as IGTs and shippers become more familiar with the RPC approach over the first year of operation.
13. Nearly all respondents emphasised the need for a robust and effective enforcement regime. A number of respondents questioned whether the guidance was too ambiguous, allowing room for 'gaming'. The guidance must balance the need for a consistent approach across IGTs with flexibility to deal with the wide range of consumers that may be connected. The guidance will be kept under review to ensure it remains appropriate. Where improvements or clarification can be made, within the context of the licence condition, this will be done. As stated in paragraph 8 above, the enforcement regime should provide IGTs with appropriate incentives not to systematically abuse the RPC mechanism. The concerns raised throughout the review, and more recently in response to this guidance, emphasise the need to bring RPC into effect as soon as possible. The

July 2003 final proposals set out the implementation timetable with RPC taking effect on 1 January 2004. It is not necessary to wait for the development of automated billing systems by all IGTs to control IGT transportation charges. Although such systems are desirable, effective control of IGT charges remain Ofgem's principle priority.

- 14 As stated above, this guidance will be kept under review to ensure it remains proportional and meets the interests of consumers. In particular, it will be considered carefully alongside our forthcoming development of an effective monitoring and enforcement regime for RPC and in the light of implementation experience. Further comments should be addressed to me.

Yours faithfully,

Indra Thillainathan
Analyst, gas distribution regulation.

Guidance for calculation of the RPC price cap

Introduction

- 1.1 The proposed modification to IGT licences requires that under RPC IGTs determine a transportation charging cap using the following formula:

$$TC_t = SSP - CSEP$$

Where:

- TC_t means the maximum charge the licensee may charge for each premises in year 't';
- SSP means Transco's single supply point charges for premises calculated at the prevailing charge in accordance with the prevailing methodology statement for Network Region r at the Entry-point; excepting charges for metering arrangements, meter reading, CSEP administration charges, NTS entry capacity charges where determined by auction, or other charges determined in writing by the Authority; and
- CSEP means Transco's connected system exit point charges calculated at the prevailing charge in accordance with the prevailing methodology statement for Network Region r at Entry-point; excepting charges for metering arrangements, meter reading, CSEP administration charges, NTS entry capacity charges where determined by auction, or other charges determined in writing by the Authority;

- 1.2 The RPC price-cap should be determined using Transco's relevant gas transportation charging methodology. Four parameters determine the price cap – the entry-point into RPC, the relevant property annual quantity (AQ), estimation of fully developed AQ, and the region and relevant load factor.
- 1.3 Application of some of these parameters may differ across types of premises if GTs apply different assumptions. Ofgem's approach to the calculation of RPC charges in specific cases is set out below using a consistent set of assumptions.

This is followed by worked examples. Where a property first enters RPC, part way through a charging year, the RPC price-cap will need to be pro-rated to reflect the period of time over which transportation services were provided.

2.0 New domestic housing connections

Entry point

- 2.1 The entry-point determines the initial charges i.e. where year 't' is equal to 1 and the formula in 1.1 above is used to determine the RPC price-cap. The date of entry-point determines the appropriate Transco charging method applicable to the calculation of RPC. The following principles apply when determining entry-point:
- 2.2 The entry-point date is either:
- the date of binding contractual agreement; or
 - the date of connection of a premises.
- 2.3 The binding agreement is between the GT and the consumer requiring the connection or the appointed agents of either party. An IGT has 60 days from the date they entered into a binding contractual agreement to select their approach to determining entry-point. In the absence of any such selection, the date of connection will be used to determine the entry-point. Where the GT uses the date of binding agreement as the entry-point it may apply this date to all premises included in the specific agreement. In this case premises are subject to a shadow-charge. The shadow-charge will determine the maximum charges shippers face when premises are connected and transportation charges first fall due¹.
- 2.4 If the GT uses the date of connection then premises are likely to have different entry-points. This may affect the initial RPC charge if, for example, Transco's

¹ See Ofgem's 3 September 2003 open letter 'Implementation of RPC', paragraph 8 for more information on the shadow-charge.

charging method or charges has changed. There is no shadow-charge if this approach is used to determine entry-point. The connection date is determined when a specific premises is connected to the GT's gas main and gas has entered the service pipe. It is not necessarily equivalent to the date of meter fit or registration of the supply point.

- 2.5 Once determined the entry-point stays fixed for any particular premises.

Property annual quantity

- 2.6 To calculate the Transco equivalent SSP charge an annual quantity for the premises is required. For domestic premises the NExA AQ values must be used. In effect this gives seven charging bands into which connected premises may fall. The charging band applicable to a specific premises must be consistent with the property type actually connected or reasonably expected to be connected.

Estimation of fully developed annual quantity

- 2.7 To calculate the Transco equivalent CSEP charge an estimate of the fully developed peak day load for the completed development is required. To ensure consistency across GTs the following principles shall apply:

- For RPC purposes the fully developed CSEP AQ (CSAQ) must be calculated as the sum of individual property NExA AQ as determined from the development plan agreed as part of the original binding contract (see paragraph 2.3 above). This is termed 'CSAQrpc'.
- The fully developed CSAQrpc must be determined when the CSAQ in respect of the development is first submitted to Transco under the NExA arrangements.
- Once determined, the CSAQrpc is not revised or re-estimated when calculating RPC for the charging bands referred to in 2.6 above with the following exception:
 - If a new CSAQ is nominated to Transco which exceeds the original CSAQ, then for RPC purposes the CSAQrpc may be re-calculated.

The re-calculation should be based on any current, up-dated, development plan relevant to the original binding contractual agreement and is based on the sum of individual property NExA AQs.

- Once the RPC charge is established for a specific property, i.e. the property is connected to the GT's pipeline and a shipper has made arrangements for transportation of gas, it is not subject to any change in the property AQ or CSAQ, i.e. charges are based on the property AQ and the estimate of CSAQrpc prevalent at the time of connection.
- CSAQrpc does not make any allowance for potential future developments. Such issues are not relevant to RPC although they may remain relevant to the engineering design of the CSEP and CSAQ nominated to Transco as part of the NExA.

Region and relevant load-factor

- 2.8 Transco applies a standard load factor for domestic premises which varies by LDZ. The relevant domestic load factor for the region in which the premises are connected should be used when calculating Transco-equivalent charges.

Nested CSEPs

- 2.9 When a nested CSEP is connected to the initial upstream site, the IGT on the upstream site may need to re-nominate the CSEP AQ to Transco in order to accommodate the new load on the nested CSEP. However, in line with paragraph 2.7, the CSEP load nominated to Transco (whether this is the original value or the re-nominated value) will have no bearing on the CSEP charge for the nested development as this is calculated from the sum of the NExA values of the planned properties (CSAQrpc) on the nested development only. In effect, the nested development is treated as a separate entity and as such its charges are not influenced by the upstream site nor by the combined CSEP load of the two sites. The property charge is calculated using the same method in paragraph 2.6.

3.0 Industrial and commercial premises

Unit charges

- 3.1 The RPC charge for I&C premises applies to the unit charge (p/kWh). Changes in consumption, as reasonably estimated in view of available meter reads, will be taken into account from year to year by adjusting the total RPC annual charging cap. Changes in estimated consumption will apply on a forward-looking basis and will not be used for reconciliation of the previous year's RPC price-cap. Nor will they be used to recalculate the unit charge other than in the circumstances described in 3.4 below.

Entry-point

- 3.2 The entry-point for I&C premises is determined in exactly the same way as domestic premises.

Property annual quantity

- 3.3 The proposed licence requires that IGTs estimate and agree where appropriate an initial AQ with shippers at entry-point, or in any event, before charges first fall due. There are no standard AQs relevant to I&C premises. Once established, I&C AQs in subsequent years should be subject to revision taking into account actual meter reads (as set out in 3.1 above).

Estimation of fully developed annual quantity

- 3.4 As set out above there are no standard AQs relevant to I&C premises. For these properties the CSAQ_{rpc} will be taken as the CSAQ initially nominated to Transco under the NExA arrangements. Once established CSAQ_{rpc} is only revised or re-estimated on the basis set out in paragraph 2.7, i.e. if a new CSAQ is nominated which exceeds the original CSAQ. When this is the case, the revised unit charges are only applied to future connections.

Region and relevant load-factor

- 3.5 For non-daily metered I&C premises, the load-factors applicable depend upon the LDZ and estimate of annual quantity (as determined in 3.3 above). The GT should use the appropriate load factor in accordance with Transco's relevant gas transportation charges methodology (i.e. the appropriate End-User Category) in order to calculate the system off-take quantity (SOQ).

4.0 Infill domestic premises

- 4.1 The proposed licence allows the application of a surcharge, in addition to the main RPC charge, to determine the price cap for domestic infill premises. The following principles apply in determining the RPC price-cap in circumstances where a surcharge is applicable. Where the surcharge is not applicable the approach for domestic premises set out in paragraph 2.1 – 2.8 must be followed.

Unit charges

- 4.2 Domestic infill premises are subject to the unit charge approach outlined in paragraph 3.1 above.

Entry-point

- 4.3 The entry-point for domestic infill premises is determined in exactly the same way as domestic premises set out in paragraph 2.1 – 2.5 above.

Property annual quantity

- 4.4 The proposed licence requires that IGTs estimate and where appropriate agree an initial AQ with shippers at entry-point or, in any event, before charges first fall due. This is used to determine the Transco-equivalent SSP charge. There are no standard AQs relevant to infill domestic premises. Once established domestic infill AQs in subsequent years are subject to revision taking into account actual meter reads.

Estimation of fully developed annual quantity

- 4.5 As set out above there are no standard AQs relevant to infill domestic premises. To determine the Transco equivalent CSEP charge the GT must apply a CSAQrpc equal to the CSAQ initially nominated to Transco under the NExA arrangements. Once established CSAQrpc is only revised or re-estimated on the basis set out in paragraphs 2.7 and 3.4.

Region and relevant load-factor

- 4.4 Infill domestic premises should use the same load factors as domestic premises as set out in 2.8 above.

5.0 Mixed developments/sites

- 5.1 A mixed development or site is one that has both domestic housing and domestic infill and/or I&C premises on the same development or in close geographical proximity. Given that RPC is based on a property level charge, each property type will be subject to their own charging arrangements as set out above. For example, a CSEP charge and SSP charge will be calculated using the method set out in section 2 for new domestic houses, while a different approach will be used to calculate the CSEP charge and SSP charge for I&Cs as set out in section 3 above.

6.0 Worked examples:

Example 1: Domestic premises

- 6.1 This section illustrates how the RPC charge will be calculated using Transco's transportation charging methodology in the North and Yorkshire region as an example. Numbers used in the examples are for illustrative purposes only. The data given in the table overleaf is based on the estimated development of a completed site in May 2003.

Table 1: Estimated site development plan for new domestic housing (May 2003) – North & Yorkshire region

1. Property charging band (NExA AQ table)	2. No of <u>PLANNED</u> houses (May 2003)	3. NeXA AQ (kWh) per property	4. Sum of NeXA AQ (kWh) per band	5. No of <u>ACTUAL</u> houses built	6. SSP charge per property (determined at contract date)	7. CSEP charge per property	8. IGT charge per property
Band 1	2	9,964	19,928	2	40.49	22.97	17.52
Band 2	5	12,104	60,520	4	49.16	27.91	21.25
Band 3	6	13,423	80,538	6	54.44	30.95	23.49
Band 4	0	15,152	0	1	61.41	34.94	26.47
Band 5	32	18,610	595,520	32	75.54	42.91	32.63
Band 6	0	22,508	0	0	0	0	0
Band 7	0	34,172	0	0	0	0	0
TOTAL	45		756,506	45			

1. Entry into RPC on the basis of date of binding contractual agreement

- 6.2 In this example, the IGT chooses the date of binding contractual agreement as entry-point into RPC as set out in paragraphs 2.1 to 2.5.
- 6.3 Table 1 shows the planned portfolio of houses to be built with the number of properties for each NExA AQ property charging band. The shadow charge for each property band is determined at the date of binding contractual agreement. Assuming entry date into RPC is May 2003, Transco’s most recent transportation charging methodology (in this case April 2003) is used to calculate the price cap for each property band based on the SSP charge and CSEP charge.
- 6.4 The charges for each band are determined by the four parameters set out in paragraph 1.2. For example, the relevant parameters for premises in band 2 are:
- entry point – **date of binding agreement;**
 - relevant property annual quantity – **Band 2: 12,104kWh;**
 - estimation of fully developed annual quantity (CSAQrpc) – **756,506kWh;** and
 - region and load factor – **North and Yorkshire.**

Calculating the CSEP charge

- 6.5 Based on the CSAQrpc, the CSEP charge for the site is £1,774.16. The CSEP unit charge is obtained by dividing this CSEP charge by the CSAQrpc:

$$\text{CSEP unit charge: } \quad \text{£1,744.16} / 756,506 = \mathbf{0.2306 \text{ p/kWh}}$$

- 6.6 The CSEP unit charge is then multiplied by the relevant NExA AQ to obtain a CSEP charge for each property band (column 7 in Table 1). For a property in band 2 this is:

$$\text{CSEP charge for band 2: } \quad 0.2306\text{p/kWh} \times 12,104 = \mathbf{£27.91}$$

Calculating the SSP charge

- 6.7 The SSP charge is calculated with reference to the relevant property AQ. In the case of a band 2 property, the AQ is 12,104kWh, which gives an annual charge of £49.16.

Calculating the RPC price cap shadow charge

- 6.8 The initial RPC price-cap for transportation charges for a band 2 property is the difference between the SSP charge and the CSEP charge:

$$\text{IGT shadow charge for band 2: } \quad 49.16 - 27.91 = \mathbf{£21.25}$$

The RPC price cap on connection

- 6.9 The shadow charge must be revised to reflect the appropriate property band for the property type actually connected. Column 5 in table 1 shows the actual number of houses built in each property band. For example, if on connection in December 2003, a property that was initially planned as a band 2 property (i.e. a 2 bedroom terrace) now falls in band 4 (i.e. it is eventually built as a 3 bedroom semi), then the IGT charge should be as per band 4. That is, the IGT shadow charge must be revised by the IGT to reflect the CSEP charge and SSP charge applicable for band 4 calculated at the original entry point, May 2003:

$$\text{IGT charge for band 4: } \quad 61.41 - 34.94 = \mathbf{£26.47}$$

Adjustments in CSAQrpc

- 6.10 As paragraph 2.7 states, once determined the CSAQrpc is not revised or re-estimated except in the circumstances the IGT re-nominates a new CSAQ to Transco that exceeds the original CSAQ. Then, for RPC purposes the CSAQrpc may be re-calculated based on any current and up-dated development plan relevant to the binding contractual agreement.
- 6.11 A new CSEP unit charge is calculated from the new CSAQrpc using the same Transco transportation charging methodology that was initially used at date of binding contractual agreement. The revised CSEP unit charge is then used to recalculate the CSEP charge, and hence IGT charge, for each property band. Once revised, the IGT charge will only apply to properties not yet connected.

2. Entry into RPC on the basis of the date of connection

- 6.12 In this example, the IGT chooses the date of connection (in this example, it is December 2003) as entry-point into RPC as set out in paragraphs 2.1 to 2.5. The charges for each band are determined by the four parameters set out in paragraph 1.2.

Calculating the CSEP charge

- 6.13 The CSEP charge is calculated from the same CSAQrpc derived from the original development plan in May 2003, but using the Transco transportation charging methodology (in this case, it is October 2003) that applies at the date of connection. Assuming that Transco's October 2003 transportation charging methodology is different to the April 2003 charging methodology, the CSEP charge for a band 4 property, for example, is:

$$\text{CSEP charge for band 4: } 0.2379\text{p/kWh} \times 15,152\text{kWh} = \text{£36.05}$$

- 6.14 However, if the CSAQrpc has been updated since May 2003, and the band 4 property is connected after the update, the CSEP charge should reflect the revised CSAQrpc as stated in paragraphs 6.10 to 6.11.

Calculating the SSP charge

- 6.15 As RPC entry is now at a later date (December 2003) than the date of binding contractual agreement, the SSP charge is calculated subject to the updated Transco transportation charging methodology (as at October 2003). This may give rise to a different SSP charge from that originally calculated in May (column 6 in Table 1) if Transco's charges have changed.

Example 2: Domestic infill domestic premises

- 6.16 Table 2 shows how the IGT price cap is determined for three domestic infill premises that are part of the same infill project. As in the case of new domestic premises, the entry point for domestic infill premises is determined by either the date of binding contractual agreement or by the date of connection.

1. Calculating the initial IGT charge (first year of entry into RPC)

Calculating the CSEP charge

- 6.17 Assuming entry into RPC takes place at the date of binding contractual agreement in June 2003, the initial IGT charge is calculated using Transco's April 2003 transportation charging methodology.
- 6.18 The CSEP charge is based on the CSAQ_{rpc}, which is the CSEP AQ initially nominated to Transco under the NExA. In this example, this is assumed to be 50,000kWh. The CSAQ_{rpc} remains fixed except in the circumstances set out in paragraph 2.7 (i.e. when the CSAQ nominated to Transco is revised upwards).
- 6.19 Based on the CSAQ initially nominated to Transco under the NExA, that is, 50,000 kWh, the CSEP unit charge for the site is:

$$\text{CSEP unit charge: } \quad \pounds 1,323 / 50,000\text{kWh} = \mathbf{0.2646\text{p/kWh}}$$

Calculating the SSP charge

- 6.20 The initial SSP charge is based on the initial property AQ agreed between shipper and IGT on RPC entry. The SSP unit charge for the 10,000kWh property is **0.4060pence/kWh**.

Table 2: Estimated site development plan for domestic infill (Jun 03)–North & Yorkshire region

No of houses	Agreed AQ (kWh) with shippers per property	SSP unit charge per property	CSEP unit charge per property	RPC unit charge per property (fixed)	Surcharge	IGT unit charge per property	IGT annual charge
1	10,000	0.4060	0.2646	0.1414	0.3412	0.4826	48.26
1	12,000	0.4058	0.2646	0.1412	0.3412	0.4824	57.88
1	14,000	0.4056	0.2646	0.1410	0.3412	0.4822	67.50
3	36,000						

RPC unit charge

6.21 The initial RPC unit charge in respect of the 10,000 kWh property is therefore:

$$\text{RPC unit charge: } 0.4060\text{p/kWh} - 0.2646\text{p/kWh} = \mathbf{0.1414\text{p/kWh}}$$

6.22 For future charges, a floor and ceiling is established 5% either side of the RPC unit charge. It is this component of the IGT charge (which excludes any surcharge) that is constrained by the floor and ceiling. Once established it is the initial RPC unit charge that is indexed by the movement in Transco’s charges in future years, in accordance with the rules of RPC.

Initial IGT charge

6.23 A 0.3412pence/kWh infill surcharge is then applied to the RPC charge to obtain the initial IGT charge. The initial IGT charge for a 10,000 kWh property is calculated in the following way, assuming entry into RPC at point of binding contractual agreement :

$$\begin{aligned} \text{RPC unit charge} + \text{Unit surcharge} &= \mathbf{\text{IGT unit charge}} \\ 0.1414\text{p/kWh} + 0.3412\text{p/kWh} &= \mathbf{0.4826\text{p/kWh}} \end{aligned}$$

6.24 The IGT unit charge is multiplied by the property AQ to derive the IGT annual charge cap of **£48.26**.

2. Calculating the IGT charge in subsequent years

6.25 Once established the initial CSAQrpc is not revised or re-estimated except for the reasons given in paragraph 2.7, but the property AQ is subject to revision in later years in the light of actual meter reads. For example, if in October 2004 the AQ of the 10,000kWh property is revised on the basis of actual meter reads to 14,000kWh, the IGT charge for the following year will be revised to reflect the revised property AQ.

Indexing of RPC unit charge

6.26 The RPC unit charge however, will only be revised on the basis of the RPC indexing mechanism as stated in paragraph 6.22. In this case, the following year's RPC unit charge will be as follows:

- the RPC unit charge in year t is uplifted by the annual change in the weighted SSP charge (assuming a 1.5% increase) to give the indexed RPC unit charge in year t+1:

$$\begin{aligned} \text{RPC unit charge}_t * \text{WSSP} &= \text{RPC unit charge}_{t+1} \\ 0.1414\text{p/kWh} * 1.5\% &= \mathbf{0.1434\text{p/kWh}} \end{aligned}$$

- the new RPC unit charge is bound by the floor and ceiling as per the RPC mechanism

Inflating of unit surcharge

6.27 The infill surcharge (if applicable) is inflated by RPI each year. We assume in this case, that the surcharge in year t is inflated by 2.5% to give:

$$0.3412\text{p/kWh} * 2.5\% = \mathbf{0.3497\text{p/kWh}}$$

New IGT charge

6.28 The RPC unit charge for year t+1 is added to the infill surcharge for year t+1 to give the IGT unit charge for the year t+1:

Year_{t+1} IGT unit charge: $0.1434\text{p/kWh} + 0.3497\text{p/kWh} = \mathbf{0.4931\text{p/kWh}}$

- 6.29 The Year_{t+1} IGT unit charge is then multiplied by the revised property AQ to give the maximum annual IGT charge in year t + 1:

Year_{t+1} IGT annual charging cap: $0.4931\text{p/kWh} * 14,000 = \mathbf{£69.03}$

I&C premises

- 6.30 The IGT charge for an Industrial and Commercial (I&C) site is calculated in exactly the same way as infills, with the exception of the surcharge, which is not applicable to I&Cs.