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Independent gas transporters, shippers
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Dear Colleague,

Publication of the changes in Transco's single supply point charge and in the Retail Price Index pursuant to Special Condition 1 of the Independent Gas Transporters' licences

1. Special Condition 1¹ of the Independent Gas Transporters' (IGTs) licences sets out the arrangements for determining the maximum charge that licensees may levy on each premises that is subject to the Relative Price Control (RPC) regime.
2. As part of these arrangements, the percentage change in the retail price index (RPI) and the percentage change in the weighted average of Transco's single supply point charge (wSSP) are used to calculate the annual change in the floor and ceiling² and the annual change in transportation charges. Both the RPI and wSSP are determined and published by the Authority of Gas and Electricity Markets (Authority) in October of each year to take effect from 1 January of the following year.
3. Pursuant to Special Condition 1 of IGTs' licences, this letter sets out:
 - a. the wSSP for year 2004; and
 - b. the RPI for year 2004;

these figures should be used to adjust transportation changes from 1 January 2005 in accordance to Special Condition 1 of IGTs' licences.

4. Under paragraph 2 of Special Condition 1, licensees are not required to adjust charges in January 2005 for new premises that have entered RPC between 1 October 2004 and 31 December 2004. For these premises, the licensees should adjust charges from 1 January 2006 based on the values of wSSP and RPI that the Authority will publish in 2005.

¹ Special Condition 1 *Charging of Gas Shippers – Relative Price Control* was introduced in IGTs' licences in January 2004.

² The floor and ceiling are defined in Special Condition 1 and explained in Ofgem's July 2003 document *The Regulation of Independent Gas Transporter Charging – Final Proposals*.

The change in the weighted average of Transco's single supply point charge

5. The wSSP for year 2004 is the percentage change between the averages of Transco's single supply point charge of years 2003 and 2004 for each network region, where a year is defined from 1 October to 30 September inclusive. Table 1 provides the wSSP for each of the eight network regions. The underlying calculations are described in appendix 1.

Table 1. wSSP per region

Region	wSSP (%)
East of England	2.61
North of England	3.20
London	3.44
North West	2.94
Scotland	3.14
South of England	2.72
Wales and the West	2.86
West Midlands	3.15

The change in the Retail Price Index

6. The RPI is defined as the percentage change between the average of the retail price index for the period 1 April to 30 September 2004 and the average of the retail price index for the period 1 April to 30 September 2003.
7. The Authority has determined that the RPI for 2004 is **2.93%**. This figure should be applied from 1 January 2005 in accordance with Special Condition 1. The underlying calculations are described in the attached appendix 1.
8. If you have any queries in relation to this letter, please do not hesitate to contact Melanie Everitt at 0207 901 7388.

Yours sincerely,



Andrew Walker
Director, Transmission Networks Regulation

Appendix 1

1. This appendix illustrates the calculations underlying the values of wSSP and RPI to be applied from 1 January 2005 in accordance with Special Condition 1 of the IGTs' licences.

The change in the weighted average of Transco's single supply point charge

2. The wSSP for year 2004 is determined as the percentage change between the average single supply point (SSP) charge (based on unit rates) for the period from 1 October 2002 to 30 September 2003 and the average SSP charge for the period from 1 October 2003 to 30 September 2004.
3. The SSP unit rate charge is calculated for each of the 8 network regions. The SSP unit rates as shown in table 2 are derived from averaging charges across exit zones within each of the network regions³.
4. The calculations were performed for the two relevant periods, 1 October 2002 to 30 September 2003 and 1 October 2003 to 30 September 2004. The percentage change between these two periods within each network region gives the wSSP in table 1.

Table 2. Calculating the wSSP

Region	Unit Rate Oct-02 to Sept-03	Unit Rate Oct-03 to Sept-04	wSSP (%)
East of England	0.43	0.44	2.61
North of England	0.41	0.43	3.20
London	0.45	0.47	3.44
North West	0.43	0.44	2.94
Scotland	0.41	0.42	3.14
South of England	0.47	0.48	2.72
Wales and the West	0.46	0.48	2.86
West Midlands	0.44	0.45	3.15

The change in the Retail Price Index

5. The RPI for year 2004 is determined as the percentage change between the arithmetic average of the retail price index for the period from 1 April 2004 to 30 September 2004 and the arithmetic average of the retail price index for the period from 1 April 2003 to 30 September 2003. The calculation is shown in table 3.

³ As an example, the London network comprises the average of the SSP unit rates across its three exit zones NT1, NT2 and NT3.

Table 3. Calculating the RPI

Defined Period	Arithmetic Average	RPI (%)
April-September 2003	181.57	2.93
April-September 2004	186.88	

6. The retail price index for the relevant periods uses the data published by the Office for National Statistics.