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value for all customers

Independent gas transporters, shippers
and other interested parties

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Dear Colleague,

Publication of the changes in the relevant Gas Transporters' single supply point charge¹ and in the Retail Price Index effective from 1 January 2007 pursuant to Special Condition 1 of the Independent Gas Transporters' licences

Special Condition 1² 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.

As part of these arrangements, the percentage change in the retail price index (RPI) and the percentage change in the weighted average of the relevant gas transporters' single supply point charge (wSSP) are used to calculate the annual change in the floor and ceiling³ 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.

Pursuant to Special Condition 1 of IGTs' licences, this letter sets out:

- the wSSP for year 2006; and
- the RPI for year 2006;

these figures should be used to adjust transportation charges from 1 January 2007 in accordance to Special Condition 1 of IGTs' licences.

¹ The relevant Gas Transporters include the eight Distribution Networks. The single supply point charge comprises transmission and distribution charges.

² Special Condition 1 *Charging of Gas Shippers – Relative Price Control* was introduced in IGTs' licences in January 2004.

³ 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 the relevant Gas Transporters' single supply point charge

The wSSP for year 2006 is the percentage change between the averages of the relevant Gas Transporters' single supply point charge of years 2005 and 2006 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	12.59
North of England	9.01
London	7.68
North West	- 4.38
Scotland	4.22
South of England	5.30
Wales and the West	4.13
West Midlands	5.73

The change in the Retail Price Index

The RPI is defined as the percentage change between the average of the retail price index for the period 1 April to 30 September 2006 and the average of the retail price index for the period 1 April to 30 September 2005.

The Authority has determined that the RPI for 2006 is **3.19%**. This figure should be applied from 1 January 2007 in accordance with Special Condition 1. The underlying calculations are described in appendix 1.

If you have any queries in relation to this letter, please do not hesitate to contact Lewis Hodgart at 0207 901 7021.

Yours sincerely,

Joanna Whittington
Director, Gas Distribution

Appendix 1

This appendix illustrates the calculations underlying the values of wSSP and RPI to be applied from 1 January 2007 in accordance with Special Condition 1 of the IGTs' licences.

The change in the weighted average of the relevant Gas Transporters' single supply point charge

The wSSP for year 2006 is determined as the percentage change between the average single supply point (SSP) charge (based on unit rates) for the period from 1 October 2004 to 30 September 2005 and the average SSP charge for the period from 1 October 2005 to 30 September 2006.

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 regions⁴.

The calculations were performed for the two relevant periods, 1 October 2004 to 30 September 2005 and 1 October 2005 to 30 September 2006. 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-04-Sept-05	Unit Rate Oct-05-Sept-06	wSSP (%)
East of England	0.4290	0.4831	12.59
North of England	0.4178	0.4555	9.01
London	0.4649	0.5006	7.68
North West	0.4306	0.4118	- 4.38
Scotland	0.4083	0.4256	4.22
South of England	0.4781	0.5035	5.30
Wales and the West	0.4722	0.4917	4.13
West Midlands	0.4435	0.4689	5.73

The change in the Retail Price Index

The RPI for year 2006 is determined as the percentage change between the arithmetic average of the retail price index for the period from 1 April 2006 to 30 September 2006 and the arithmetic average of the retail price index for the period from 1 April 2005 to 30 September 2005. The calculation is shown in table 3.

⁴ 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 2005	192.28	3.19
April-September 2006	198.42	

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