

**To:**  
**The Company Secretary**

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2. Scotland Gas Networks Plc  
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3. Southern Gas Networks Plc  
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4. Northern Gas Networks Ltd  
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5. Wales & West Utilities Ltd  
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Coedkernow  
Newport  
WP10 8F2

**Notice by the Gas and Electricity Markets Authority pursuant to Standard Special Condition A5 (Obligations as Regard Charging Methodology) as amended by Standard Special Condition D11 (Charging Obligations) of the gas transporter's licence directing the implementation of changes to the charging methodology**

1. Each of the Gas Distribution Networks (the "GDNs") to whom this document is addressed holds a gas transporter licence granted or treated as granted by the Gas and Electricity Markets Authority (the "Authority") under section 7 of the Gas Act 1986.
2. On 19 December 2006 Scotia Gas Networks plc on behalf of all the GDNs submitted a joint consultation report for the Authority's consideration pursuant to Standard Special Condition (SSC) A5 (Obligations as Regard Charging Methodology) as amended by Standard Special Condition D11 (Charging Obligations) of the gas transporter's licence.
3. The report proposed to modify in each GDN licence, the charging methodology basis of the Customer Charge for domestic customers from commodity to capacity, and also proposed to implement this change in each GDN licence with effect from 1 April 2007.
4. The GDNs are jointly and severally of the view that the 1 April 2007 implementation date will enable the basis of the Customer Charge for domestic customers to be set at the appropriate level for the full 1 April 2007 – 31 March 2008 formula year, thus introducing stability in the charge.
5. In accordance with SSC A5, the GDNs had jointly consulted shippers on the proposed April 1 2007 implementation date and by 30 October 2006, received five representations which are published at [www.gasgovernance.com](http://www.gasgovernance.com).
6. Ofgem (the office of the Authority) independently consulted on the 1 April implementation date regarding the Customer Charge change as part of the 'Reform of Interruption Arrangements on Gas Distribution Networks – an Update' document published in October 2006, and by 12 December 2006 ten representations that commented on the implementation issue were received, all of which are published on the Ofgem website at [www.ofgem.com](http://www.ofgem.com).

7. The principal concerns of respondents to both consultations with respect to the April implementation date focused on the time required to update internal computer systems and perform adequate system testing, the time required to implement a new charge type, potentially high implementation costs and the possible effects on the Unified Network Code Annual Quantity (AQ) review process; and one respondent suggested that any such change to the implementation date would require a regulatory impact assessment.
8. The Authority is satisfied that the timing and new charge type concerns have been adequately addressed by an interim solution proposed by the GDNs, which could reasonably be expected to expire on 30 September 2007 and involves initially adding the new Customer Capacity Charge to the existing Use of System Capacity Charge for domestic customers providing time for industry to develop a separate Customer Capacity Charge and update their computer systems.
9. The Authority is satisfied that implementing the methodology change and the timing of the change will not have a significant financial impact on shippers or any other interested party as the interim solution also addresses the concern of one respondent who suggested that a regulatory impact assessment be conducted regarding implementation costs for the 1 April 2007 date and the Authority considers that for all these foregoing reasons a regulatory impact assessment is not necessary.
10. The Authority is of the view that the appropriate way to address the AQ review process could be for any interested respondent to propose a modification to the Unified Network Code, and the Authority concludes that the 1 April 2007 implementation offers significant benefits in the form of consistent GDN charging all through the formula year, going forward.
11. The Authority considers that implementing the change to the charging methodology for domestic customers' Customer Charge will stabilise the GDNs charges going forward, increase certainty for domestic customers; and is requisite for the purpose of achieving the relevant methodology objectives.

Therefore, in accordance with SSC A5, the Authority hereby directs that the change in charging methodology in each GDN's gas transporter's licence from commodity basis to capacity basis for

domestic customers' Customer Charge be implemented on and from 1 April 2007.

This document also sets out the Authority's reasons as required under section 5A of the Utilities Act 2000 and section 38A of the Gas Act 1986 for thinking that it is unnecessary to carry out an impact assessment and for giving this notice directing that the methodology change be implemented on and from 1 April 2007.

Dated the 16<sup>th</sup> Day of January 2007

The official seal of the Gas and Electricity Markets Authority hereto affixed is authenticated by the signature of

David Gray

Managing Director, Networks  
Authorised on behalf of the Authority