



Gas Transporters and Shippers

*Promoting choice and
value for all customers*

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21 September 2007

Dear Colleagues,

Direction not to make proposed modification to GDN Charging Methodology

The Authority received a joint GDN consultation report on 13 September 2007 pursuant to amended Standard Special Condition (SSC) A5 (Obligations as Regard Charging Methodology) of each GDN's GT licence (the licence). The report proposes a modification to the structure of gas distribution charges so that the capacity element of use of system charges will increase from 50% to 95% with effect on and from 31 October 2008.

Section 5A of the Utilities Act 2000 places a duty on the Authority to carry out an impact assessment where:

- the Authority is proposing to do anything for the purposes of, or in connection with, the carrying out of any function exercisable by it under or by virtue of Part 1 of the Gas Act 1986, and
- it appears to the Authority that the proposal is "important", (as widely defined under section 5A(2) of the Utilities Act).

The joint report proposes that:

- the DN Charging Methodology should be changed so that the capacity element of the LDZ system charges is set to recover 95% of the revenue from the LDZ system charges, and the commodity element set to recover 5% of the revenue;
- interruptible supply points should pay 47.37% of the increased LDZ capacity charge; and
- the change should be made with effect from 1 October 2008.

The report indicates that implementation of the joint modification proposal could result in distributional affects in the charges faced by shippers across all gas load profiles. End consumers could consequently be affected through changes to suppliers' bills. Gas industry billing and administration systems may require updating and there could be significant environmental consequences of moving to a more fixed charging regime. Implementation would be likely to have significant impacts on gas industry participants,

persons engaged in commercial activities connected to the gas industry, and the general public.

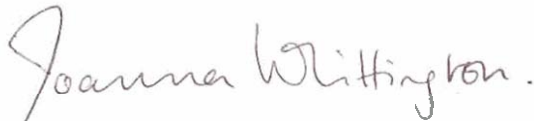
The Authority's principal objective is to protect the interests of consumers wherever appropriate by promoting effective competition between persons engaged in or commercial activities connected with the shipping, transportation or supply of gas so conveyed. The Authority is also obliged to have regard to the effect on the environment of activities connected with the conveyance of gas through pipes.

Consequently, the Authority considers that the joint modification proposal is important and intends to undertake an impact assessment.

Therefore we are hereby giving a direction to each GDN under paragraph 2 of SSC A5 that, pending the publication by Ofgem of an assessment of its likely impact, the jointly proposed modification shall not be made. We currently expect to publish our assessment of the proposed modification in December 2007.

If you have any queries regarding the proposed modification or this direction please contact john.mcnamara@ofgem.gov.uk (phone 0207 901 7035).

Yours sincerely

A handwritten signature in black ink that reads "Joanna Whittington." The signature is written in a cursive style with a large initial 'J'.

Joanna Whittington
Director - Gas Distribution