



Independent gas transporters, gas shippers and other interested parties

Promoting choice and value for all customers

Your Ref:
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Date: 31 October 2008

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 2009 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 2008; and
- the RPI for year 2008;

these figures should be used to adjust transportation charges from 1 January 2009 in accordance to Special Condition 1 of IGTs' licences.

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

The wSSP for year 2008 is the percentage change between the averages of the relevant Gas Transporters' single supply point charge of years 2007 and 2008 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.

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*.

Table 1 wSSP per region

Region	wSSP (%)
East of England	3.97
North of England	24.11
London	54.06
North West	20.37
Scotland	21.69
South of England	26.45
Wales and the West	20.59
West Midlands	21.28

In price control formula year 2006/07 a number of GDNs had a significant under recovery of collected revenue against allowed revenue. To compensate for this under recovery the level of charges in most networks increased significantly from October 2007. As a consequence, the average SSP charge for the gas year October 07 – September 08, was significantly higher than the average SSP charge for the gas year October 06 – September 07.

Under Special Condition 1, the annual change in IGT transportation charges applied under RPC, is controlled by a 5% floor and ceiling. Not including the impact of the RPI% uplift, this means that the maximum RPC charges can increase by is 10% in any one year. Other than for the East of England network, increases in the wSSP values set out in Table 1 will not affect the level of charges administered under RPC from 1 January 2009. The increase in RPC charges in areas other than the East of England will be capped by the maximum uplift of 10%.

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 2007 and the average of the retail price index for the period 1 April to 30 September 2008.

The Authority has determined that the RPI for 2008 is **4.65%**. This figure should be applied from 1 January 2009 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 by phone on 0207 901 7021 or by e-mail at lewis.hodgart@ofgem.gov.uk.

Yours sincerely,



Rachel Fletcher
 Director, Distribution

Appendix 1

This appendix illustrates the calculations underlying the values of wSSP and RPI to be applied from 1 January 2009 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 2008 is determined as the percentage change between the average single supply point (SSP) charge (based on unit rates) for the period from 1 October 2006 to 30 September 2007 and the average SSP charge for the period from 1 October 2007 to 30 September 2008.

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 2006 to 30 September 2007 and 1 October 2007 to 30 September 2008. 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 06 – Sept 07	Unit rate Oct 07 – Sept 08	wSSP (%)
East of England	0.5410	0.5625	3.97
North of England	0.4449	0.5521	24.11
London	0.4488	0.6914	54.06
North West	0.4867	0.5858	20.37
Scotland	0.4444	0.5409	21.69
South of England	0.5353	0.6769	26.45
Wales and the West	0.5154	0.6215	20.59
West Midlands	0.5231	0.6344	21.28

The change in the Retail Price Index

The RPI for year 2008 is determined as the percentage change between the arithmetic average of the retail price index for the period from 1 April 2007 to 30 September 2007 and the arithmetic average of the retail price index for the period from 1 April 2008 to 30 September 2008. The calculation is shown in table 3.

Table 3 Calculating the RPI

Defined Period	Arithmetic Average	RPI (%)
April-September 2007	206.72	4.65
April-September 2008	216.33	

⁴ As an example, the London network comprises the average of the SSP unit rates across its three exit zones NT1, NT2 and NT3.

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