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*Promoting choice and  
value for all customers*

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Date: 27 February 2009

Dear Paul

### **Approval of 4B Connection Charging Methodology: Southern Gas Networks**

On 26 February 2009, Southern Gas Networks ("the licensee") submitted to the Gas and Electricity Markets Authority ("the Authority") their connection charging methodology for approval.

Having reviewed the connection charging methodology, we have decided to approve it. This letter sets out the background to the requirement for our approval, and explains the rationale for our decision.

#### **Background**

In accordance with paragraph 3 of Standard Condition 4B (SLC4B), of the Gas Transporter (GT) licence, the licensee has an obligation to determine and comply with an approved connection charging methodology by the Authority by 1 April 2008. Paragraph 6 of SCL4B provides that the licensee shall not make a modification to the connection charging methodology unless the Authority (i) has been furnished with a report about the modification and (ii) has not directed, within 28 days (or within three months if it intends to undertake an impact assessment), that the modification shall not be made.

Before 1 April 2008, the above mentioned licence requirements did not exist. As such, GTs could amend their connection charging methodology without Ofgem review. This made their regime inconsistent with the one in place in other categories of gas and electricity networks.

Therefore, to ensure consistency with other charging methodologies, we amended and simplified SLC4B of the GT licence on 1 April 2008.

#### **Review of connection charging methodology**

As the amended SLC4B enabled the Authority to approve the whole connection charging methodology for the first time, we asked GTs to review their respective connection charging methodologies before seeking approval. In particular, we wanted to ensure that the methodologies are consistent with the obligations set out in the amended SLC4B and that they fully reflect the provisions of the recently introduced 'Network Extensions Scheme'. The scheme consists of new arrangements established as part of the Gas Distribution Price Control (GDPCR) 2008-13, to facilitate the extension of the gas network to non-gas fuel poor households.

GTs were only able to fully reflect the provisions of the Network Extension Scheme in their connection charging methodologies - which could then be submitted for the Authority's approval - following publication of Ofgem's Final position paper in January 2009.<sup>1</sup> Due to the time taken to finalise the provisions and publish the Final position paper, we agreed to extend the deadline for the licensee to have an approved methodology, despite this being a potential technical breach of the licence condition.

### **Our decision**

On 26 February 2009, the licensee submitted to the Authority its connection charging methodology for approval. Having reviewed the methodology, we are satisfied that it is consistent with the obligations set out in SLC4B, and that it reflects the Final position paper with respect to the Network Extension Scheme. The Authority therefore expects that Southern Gas Networks will have sufficient resources in place to facilitate network extensions in its licensed area.

On this basis, we have decided to approve the connection charging methodology of Southern Gas Networks.

In making this decision, we recognise the inconsistent approach amongst the GDNs as to how 'least costs' is determined in their respective methodologies. We note that some GDNs define it as the lowest overall cost of construction of the network, while others also include operational costs. We therefore expect Southern Gas Networks and the other GDNs to consult and agree on a common method for calculating 'least costs' as soon as practicable, and to bring the proposal to amend the methodology to the Authority. In making this statement, we note that in electricity distribution we are working hard to introduce common methodologies and we expect the GDNs to move in this direction.

We understand that with respect to one-off connections under the Network Extension scheme, Southern Gas Networks will need additional time to get partner arrangements in place and approved by the Authority. As such, we will not take any action if Southern Gas Networks is unable to meet their obligations to provide a connection quote relevant to the scheme within the specified time frame, as long as we are satisfied that they are making reasonable endeavours to establish an approved partnership. Such comfort will only be provided until 1 April 2009.

### **Decision Notice**

**In accordance with Standard Condition 4B of the Gas Transporters' licence, the Authority has decided to approve the connection charging methodology of Southern Gas Networks.**

Yours sincerely



Rachel Fletcher

**Director, Distribution**

Signed on behalf of the Authority and authorised for that purpose by the Authority.

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<sup>1</sup> [Final position paper, Jan 2009](#)