

Modification proposal:	Connection Charging Methodology Modification 002: Proposed treatment of connection costs relating to permit schemes under the Traffic Management Act for National Grid Gas Distribution		
Decision:	The Authority ¹ directs that this proposal is not vetoed		
Target audience:	Gas Distribution Networks and other interested parties		
Date of publication:	29 March 2010	Implementation Date:	1 April 2010

Background to the modification proposal

On 3 March 2010, National Grid Gas (“the licensee”) submitted to the Gas and Electricity Markets Authority (“the Authority”) their connection charging methodology modification 002 for approval.

Having reviewed the connection charging modification, we have decided to approve it. This letter sets out the background to the proposed modification, the Authority’s decision and reasons including consideration of the relevant objectives.

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 a connection charging methodology approved by the Authority by 1 April 2008. Paragraph 6 of SLC4B provides that the licensee shall not make a modification to the connection charging methodology unless the Authority has been furnished with a report which the Authority reviews and the Authority has a right to veto the modification.

On 15 October 2009 the Department Of Transport introduced the London Permit Scheme (LPS) under the Traffic Management Act (TMA) which went live in January 2010. This scheme requires the licensee to obtain a permit before work can be undertaken on highways across London. The purpose of the permit scheme is to provide a stronger incentive for the licensee and other organisations to limit and to some extent coordinate their works on public highways in order to limit disruptions.

Following the introduction of the scheme, permits will be required for works to undertake connections in the London area. The cost of connecting premises to the nearest main in most cases is funded by the customer. The licensee has raised a modification to its connection charging methodology to clarify how the costs associated with the permits will be recovered from customers.

The modification proposal

The current methodology has a single paragraph which defines additional costs that may be included in a connection quotation. An example of additional costs is given as permit costs for traffic regulation. For clarity the licensee submitted to the Authority a proposed modification to their connection charging methodology on 3 March 2010. The licensee has added a section to the charging statement² outlining the principles of how they will recover the costs of TMA permits from customers. This explains the general principle of recharging TMA Permit Costs:

¹ The terms ‘the Authority’, ‘Ofgem’ and ‘we’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² Section 8 Recharging of TMA Permit Costs

- TMA permit costs will be identified separately in a customer's quotation and be payable in advance alongside the quotation charge;
- Additional TMA permit costs will be payable where a customer requests changes including to reschedule the agreed date for works and/or there is an alteration to the works that arises as a result of incomplete or incorrect information provided by the customer.
- In all cases such charges will be separately identifiable; and
- Exemptions for TMA permit costs apply for:
 - Domestic Load Connection Allowance (DLCA): where connections are eligible for the DLCA³ the permit cost will not be included in the quotation.
 - National Grid Policy- TMA permit costs will not be charged to customers where work is initiated through the licensee's policy, such as mains replacement programmes.
 - National Grid failure or default- customers will not be charged for costs arising from TMA permits where these have been incurred as a result of the licensee's failure or default. The licensee will only recharge the TMA Permit Costs where these have been incurred efficiently.
 - Fuel Poor Connections- customers will not be charged separately for TMA permit costs as the cost of the permit will be included in overall discounted Connection Costs⁴.

Although not explicit within the methodology the licensee has confirmed where the economic test is applied and the customer is not liable for reinforcement costs, but a permit is only required for upstream reinforcement, the cost of the permit will be included within upstream costs and not charged to the customer.

Reasons for the Authority's decision

The licensee considers that the proposal better meets the relevant objectives as it improves cost reflectivity in respect of highway costs so better achieves relevant objective (a) and it also takes account of developments in their transportation business thereby better facilitating relevant objective (d). We agree with the licensee that the proposal better achieves the relevant objectives for the reasons outlined below.

(a) compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;

The proposal better achieves relevant objective (a) as identifying the costs of permits separately within the connection quotation ensures that the licensee complies with its obligation contained within section 10 of the Gas Act (1986) paragraph 5. This specifies the cost of making the connection shall be payable by the person requiring the connection. The separate identification of the permit cost ensures compliance with this section following the introduction of the permit scheme as it ensures that certain costs resulting from the customer's request are charged to the customer.

³ Customers are eligible for the DLCA which specifies that the cost of the first 10 meters of a connection on public land will not be charged to the customer if the connection is within 23 meters of the nearest main.

⁴ Details on the discount that is applied to connection costs under the Fuel Poor Networks extensions scheme can be found in our decision letter '[Final position on the non gas fuel poor network extension scheme – 16 July 2009 version](#)' on our [website](#).

(b) compliance with the connection charging methodology facilitates competition in the supply of gas, and does not restrict, distort, or prevent competition in the transportation of gas conveyed through pipes;

We do not consider objective (b) is relevant as the proposal does not affect competition in the supply of gas.

(c) compliance with the connection charging methodology results in charges which reflect, as far as reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit;

The proposal better achieves relevant objective (c) as the proposal seeks to reflect the costs now imposed onto the licensee following the introduction of the TMA permit scheme. This proposal enables the licensee to recharge appropriately the TMA permit costs thereby ensuring the connection charges reflect costs incurred by the licensee in making connections to its gas network as part of its transportation business.

(d) so far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business;

The proposal better achieves relevant objective (d) as adding an additional section to the connection charging methodology outlining how the cost of permits will be recovered from customers helps take account of the developments in the licensee's transportation business. The development in this case is the introduction of permits by the Secretary of State for Transporting January 2010.

(e) compliance with the connection charging methodology ensures that the licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the pipe-line system to which this licence relates.

We do not consider objective (e) is relevant as the proposal does not result in any changes to the treatment of any persons who operate or propose to operate the pipeline system in relation to connection.

The proposal is consistent with both our principal objective and statutory duties.

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

Decision Notice

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Rachel Fletcher". The signature is written in a cursive style with a large initial 'R'.

Rachel Fletcher, Partner, Distribution
Signed on behalf of the Authority and authorised for that purpose