

Modification proposal:	Connection Charging Methodology Statement Modification (our ref: CM079): Proposed treatment of connection costs relating to permit schemes under the Traffic Management Act for Southern Gas Networks plc		
Decision:	The Authority ¹ directs that this proposal is not vetoed		
Target audience:	Gas Distribution Networks customers and other interested parties		
Date of publication:	16 June 2010	Implementation Date:	1 July 2010

Background to the modification proposal

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. 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 statement to clarify when and how the costs associated with the introduction of permits under the TMA will be recovered from customers.

In addition to this the licensee has also proposed a number of house keeping changes for clarity.

The modification proposal

By letter dated 19 May 2010, received 21 May 2010, Southern Gas Networks ("the licensee") submitted to the Gas and Electricity Markets Authority ("the Authority") their connection charging methodology modification CM079 for approval.

The current Connection Charging methodology statement does not contain any references to how or when TMA permit costs will be recovered from customers. The licensee has added a section to the charging statement² outlining the principles of how and when they will recover the costs of TMA permits from customers. This explains the general principle of recharging TMA Permit Costs:

- TMA permit costs will form part of the connection charge and the licensee will pass on to customers only efficiently incurred costs;
- Exemptions for TMA permit costs apply for:

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 2.17

- Domestic Load Connection Allowance (DLCA): where connections are eligible for the DLCA³ the permit cost will not be included in the quotation.
- Licensee's Policy- TMA permit costs will not be charged to customers in connection charges where work is initiated through the licensee's policy, such as mains replacement programmes.

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 that permit will be included within upstream costs and not charged to the customer.

In addition to the proposed changes for TMA permits the licensee has also proposed a number of drafting changes for clarification. These are:

1. Updated figures for the cost of connection contained in the list of examples to reflect current charges;
2. Reference to Independent Connection Providers (ICP) website for information;
3. Duplication of the definition of 'Design Charges' from the glossary in para 1.1.4 and the definition of 'Special Services' in paragraph 2.2.1;
4. Clarification that customers who require permanent reinstatement of a specialist service are recommended to provide their own contractor in paragraph 2.2.3;
5. New text clarifying that if a person requires multiple connections that are each eligible for the DLCA, providing each connection is to a different property, the DLCA's can be given to a developer and a named individual is not needed for each property, this reflects the Authority's decision on determination RBA/TR/A/DET/151⁴ dated 10 September 2009;
6. Clarification in paragraph 2.8 that the DLCA only applies if the route to the property does not have obstacles which increase the physical distance to more than 23 metres;
7. Additional text in paragraph 3.2 which clarifies the eligibility criteria required for a 'Qualified Persons' to have the Emergency Control Valve (ECV) moved free of charge;
8. Addition of a sentence in Annex D to clarify that where the Sufficiently Complex Jobs criteria apply, but no specialist engineering assessment is required, then a design charge will not apply; and
9. Additional wording in Annex C to clarify that the licensee does not provide cavity/inset meter boxes and these must be obtained by the customer.

Reasons for the Authority's decision

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

In relation the changes for TMA permits the licensee considers that the proposal better achieves 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).

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 <http://epr.ofgem.gov.uk/index.php?pk=doc544350>

In terms of the 'drafting' changes the licensee considers that the additional information better achieves relevant objectives (a) and (c). This is with the exception of the information added on ICPs which they consider better achieves relevant objective (b) to facilitate competition, and, changes to incorporate Ofgem's decision on determination RBA/TR/A/DET/151 which they consider better achieves relevant objective (d). This decision stated that the application of the DLCA did not require a named individual for each premise.

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 'drafting' changes⁵ better achieve relevant objective (a) as they ensure compliance with the connection charging methodology is consistent with obligations contained within section 10 of the Gas Act (1986) paragraph 5. Further clarification from the 'drafting' changes on how charges will be applied ensures this occurs.

(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;

The proposal better achieves relevant objective (b) as adding the reference to the ICP website in the 'drafting' changes helps facilitate competition between the licensee and ICP by increasing the awareness of alternative connection providers.

(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 Transport in January 2010. The same applies for the additional text to clarify how the DLCA applies for multiple connections. The development being the Authority's decision on determination RBA/TR/A/DET/151 that determined a named individual is not required for each property for the DLCA to apply.

⁵ With the exception of points 2 and 5, page 2.

(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 proposed modification to the connection charging methodology of Southern Gas Networks.

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**