



The Company Secretary  
Wales and West Utilities Limited  
Wales and West House  
Spooner Close  
Coedkernew  
Newport  
South Wales  
NP10 8FZ

*Promoting choice and value for  
all gas and electricity customers*

Direct Dial: 020 7901 7159  
Email: Andrew.Burgess@ofgem.gov.uk

Date: 28 March 2013

Dear Company Secretary

### **Continuation of cross-subsidy arrangements for Statutory Independent Undertakings**

This letter explains the background, reasons and effects of a direction from us<sup>1</sup> to Wales & West Utilities Ltd ("WWU") to give effect to a licence condition in relation to the cross-subsidy arrangements for the Statutory Independent Undertakings ("SIUs"). These arrangements are where National Grid Gas plc ("NGG") socialises the costs of providing gas to off-grid networks owned by WWU and Scotland Gas Networks plc ("SGN").

The direction gives effect to Parts B to D of Special Condition 4I (Gas conveyed to Independent Systems) ("SpC 4I") of WWU's Gas Transporter Licence from 1 April 2013. We have issued this direction as a consequence of a direction to WWU and others issued by the Secretary of State (DECC) on 21 March 2013 relating to the continuation of the cross-subsidy arrangements for SIUs.

Under the current arrangements for SIUs, WWU is required by Special Condition E23 (Gas Conveyed to Independent Systems) ("SpC E23") to carry out certain obligations to facilitate these arrangements. These cross-subsidy arrangements were initially put in place for the period from 1 April 2008 to 31 March 2013.

SpC 4I contains the arrangements for facilitating the continuation of the cross-subsidy for SIUs from 1 April 2013 when SpC 4I replaces SpC E23 as part of the implementation of the RIIO GD1 price controls. In particular, SpC 4I requires WWU to:

1. not change the fuel type conveyed to Independent Systems<sup>2</sup>;
2. use reasonable endeavours to enter into appropriate terms with a Relevant Shipper<sup>3</sup> for the transportation of LPG;

<sup>1</sup> The terms "Ofgem", "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> An Independent System is a pipeline system in WWU's licensed area that is not connected by pipelines to the main pipeline system.

<sup>3</sup> A Relevant Shipper is a gas shipper that has arrangements with WWU under which LNG or LPG is to be conveyed to consumers.

3. provide National Grid Gas plc (NTS) with such information to enable it to calculate the Bulk Price Differential<sup>4</sup> payments made pursuant to Special Condition 11F (Gas conveyed to Independent Systems) of its Gas Transporter Licence; and
4. set its transportation charges so that they are consistent with the Secretary of State's direction.

Paragraph 4 of SpC 4I also contains a provision whereby we may issue a direction to give effect to Parts B to D of SpC 4I following a direction issued by the Secretary of State for the continuation of the cross-subsidy arrangements for SIUs. The Secretary of State has now issued such a direction. We have consequently decided to issue a direction pursuant to paragraph 4 of SpC 4I to give effect to Parts B to D of SpC 4I from 1 April 2013.

This letter constitutes notice pursuant to section 38A of the Gas Act 1986 of the reasons for our decision.

Yours faithfully,

**Andrew Burgess**  
**Associate Partner, Transmission and Distribution Policy**

---

<sup>4</sup> The Bulk Price Differential is the volume of LPG conveyed to consumers multiplied by the difference between the reasonable estimate of the actual delivered price of the LPG supplied to consumers and the average price of gas consisting principally of methane supplied to large industrial consumers in GB.

**Direction issued to Wales & West Utilities Ltd by the Gas and Electricity Markets Authority pursuant to paragraph 4 Special Condition 4I (Gas Conveyed to Independent Systems) ("SpC 4I") of its Gas Transporter Licence giving effect to Parts B to D of SpC 4I**

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 4 of SpC 4I of the Gas Transporter Licence in respect of the Distribution Network (the "Licence") treated as granted under section 7 of the Gas Act 1986 (the "Act") to Wales & West Utilities Ltd (the "Licensee").
2. Parts B to D of SpC 4I of the Licence provide that the Licensee must carry out certain obligations to facilitate the continuation of the cross-subsidy arrangements for Statutory Independent Undertakings ("SIUs").
3. Paragraph 4 of SpC 4I provides that the Licensee's obligations under SpC 4I (Parts B to D) apply only from the date on which the Secretary of State has issued a direction requiring the Licensee to do all such things under that condition to secure the continuation of the cross-subsidy arrangements that were in force under the Licence on 31 March 2013.
4. Paragraph 4 of SpC 4I provides that the Authority may direct SpC 4I (Parts B to D) to come into effect on or at any time after the direction has been issued by the Secretary of State.
5. The Secretary of State issued a direction on 21 March 2013 and the Authority subsequently directs pursuant to paragraph 4 of SpC 4I of the Licence that SpC 4I (Parts B to D) shall have effect.
6. The Direction shall remain in force until revoked or varied by the Authority.
7. This Direction shall have effect from 1 April 2013.

**Andrew Burgess**  
**Associate Partner, Transmission and Distribution Policy**

**For and on behalf of the Authority**  
**28 March 2013**