

**To the Company Secretary:**

Energetics Gas Connections Limited  
Company number SC431569  
International House  
Stanley Boulevard  
Hamilton International Technology Park  
Glasgow  
G72 0BN

**Gas Act 1986  
Section 23(1)(a)**

**MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY  
ENERGETICS GAS CONNECTIONS LIMITED**

Whereas –

1. Energetics Gas Connections Limited (“the Licence Holder”) is the holder of a gas transporter licence (“the Licence”) granted or treated as granted under section 7 of the Gas Act 1986 (“the Act”) to transport gas for the term and subject to the conditions contained in its Licence.

2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 11 March 2013 (“the Notice”) that it proposed to modify the Licence by:

- (i) inserting into the licence a Special Condition C1 (Charging of Gas Shippers – Relative Price Control) (‘SC1’) as set out in Appendix 1 to the Notice; and
- (ii) amending Standard Licence Condition 4A (Obligations as Regards Charging Methodology) (‘SLC 4A’) as shown in Appendix 2 to the Notice.

and required any representations to the modification to be made on or before 19 April 2013.

3. The Authority did not receive any responses prior to the close of the consultation period or at all in respect of the Notice.

4. In accordance with section 23(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.

5. In accordance with section 38A of the Act the Authority gives the reasons set out in paragraph 6 below for making the licence modifications.

6. The reasons for the modification are to protect the interests of consumers by:

- (a) regulating the Licensee’s charges for the use of its pipeline system; and
- (b) ensuring that the charging methodology adopted by the licensee serves to exclude revenue derived from charges controlled by SC1 from the reasonable profit objective set out in paragraph 6 of SLC4A.

7. The effect of the modification will be to ensure that the transportation charges made by the Licensee to gas shippers are largely the same as the transportation charges administered by the incumbent Gas Distribution Network (DN) operator to whose pipe-line system the Licensee's pipe-line system is connected.

8. In respect of any application to the Competition Commission under section 23B of the Act for permission to appeal the Authority's decision, Rule 5 of the Energy Licence Modification Appeals Rules sets out the requirements relating to notice of appeal. For the purposes of Rule 5.7, 'relevant licence holder' has the same meaning as in section 23(10) of the Act. A list of relevant licence holders in relation to this modification decision is set out in attached Schedule 1.

**Now therefore**

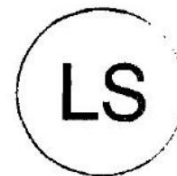
In accordance with the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies the gas transporter licence of Energetics Gas Connections Limited by

- inserting into the licence Special Condition C1 (Charging of Gas Shippers – Relative Price Control) as set out in Appendix 1; and
- amending Standard Licence Condition 4A (Obligations as Regards Charging Methodology) as shown in red font in Appendix 2.

The modification will take effect on and from 1 July 2013.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of**



.....  
**Hannah Nixon**  
**Senior Partner, Smarter Grids and Governance (Distribution)**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**22 April 2013**

**Schedule 1 to the Authority's Notice under section 23(1)(a) of the Gas Act 1986  
dated 22 April 2013**

Relevant licence holders

<b>Condition subject to modification</b>	<b>Relevant licence holders</b>
Special Condition C1. Charging of Gas Shippers – Relative Price Control	Energetics Gas Connections Limited
Amended Standard Condition 4A. Obligations as Regards Charging Methodology	Energetics Gas Connections Limited

**Appendix 1 to the Authority's Notice under section 23(1)(a) of the Gas Act 1986 dated 22 April 2013**

**Special Condition 1. Charging of Gas Shippers – Relative Price Control**

1. Subject to paragraph 2, where the licensee makes charges in accordance with paragraph 1 (a) of standard condition 4 (Charging of Gas Shippers – General) after the 31 December 2003 and where,
  - (a) the licensee provides transportation arrangements to a premises,
  - (b) the premises are not defined as legacy sites as defined within paragraph 3 of this condition; and
  - (c) charges, or revenues derived from them, are, in the main, not controlled or limited in pursuance of any condition of this licence other than standard condition 4 (Charging of Gas Shippers – General) or standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges).

then paragraph 5 of standard condition 4 (Charging of Gas Shippers – General) shall cease to have effect in relation to the premises.

2. For premises subject to paragraph 1 above or paragraph 3 (4) of this condition the licensee shall for all such premises, unless the Authority consents otherwise in writing, charge no more than:

$$TC_t = TC_{t-1} \times \left( 1 + \frac{wSSP_r}{100} \right)$$

- (a) Where  $TC_{t-1} \times \left( 1 + \frac{wSSP_r}{100} \right)$  is greater than  $C_t$ , then

$$TC_t = C_t$$

(b) Where  $TC_{t-1} \times \left(1 + \frac{wSSP_r}{100}\right)$  is less than  $F_t$ , then

$$TC_t = F_t$$

(1) Subject to this condition at Entry-point, then

$$TC_t = SSP - CSEP$$

(2) The licensee shall adjust charges on 1 January each year in accordance with this condition. Where the Entry-point is in the immediately preceding period of 1 October to 31 December, the licensee is not required to adjust charges in accordance with paragraph 2 above but shall modify the charges in accordance with this condition each 1 January thereafter.

(3) To determine the level of charges the licensee shall apply Annual Quantity in relation to domestic premises in accordance with standard Annual Quantity as accepted by the Authority, and for other premises as reasonably estimated and agreed between the licensee and any relevant shipper, unless the Authority directs otherwise for those other premises. In this paragraph 2 (3) domestic premises excludes any domestic premises where a surcharge is made pursuant to paragraph 5 of this condition.

(4) At Entry-point,  $C_t$  and  $F_t$  shall be calculated as follows:

$$C_t = TC_t \times (1 + 0.05)$$

$$F_t = TC_t \times (1 - 0.05)$$

Where  $t$  is greater than 1,  $C_t$  and  $F_t$  shall be calculated as follows:

$$C_t = C_{t-1} \times \left(1 - \frac{\Delta_r}{100}\right) \times \left(1 + \frac{RPI}{100}\right)$$

$$F_t = F_{t-1} \times \left(1 - \frac{\Delta_r}{100}\right) \times \left(1 + \frac{RPI}{100}\right)$$

- (5) Charges made or which fall to be made to premises under paragraph 1 of this condition shall be determined in accordance with this condition for a period of no less than 10 years from Entry-point.
- (6) Where the Authority reviews charges made, or which may be made, under this condition and implements any such review after 2014, the Authority shall, in the course of conducting its review, have regard to previous efficiently incurred capital expenditure made by the licensee in the course of carrying on activities required by or permitted under the Gas Act and the licence.

Definitions:

- Annual Quantity means the annual quantity of gas off-taken, or which may be reasonably likely to be off-taken, by a single supply point or connected system exit point;
- Ct means the charge ceiling as determined in accordance with paragraph 2 (4) of this condition;
- CSEP means Transco's connected system exit point charges calculated at the prevailing charge in accordance with the prevailing methodology statement for Network Region r at Entry-point; excepting charges for metering arrangements, meter reading, CSEP administration charges, NTS entry capacity charges where determined by auction, or other charges determined in writing by the Authority;
- Entry-point means the date at which t=1 and, with the exception of premises subject to paragraph 3 (4) of this condition, shall be determined as either the date of connection of a premises to the licensee's pipe-line system, and where gas has entered the premises' service pipe, or the

date the licensee is contractually bound to provide a connection to the person requiring that connection. The licensee shall select the entry-point date within 60 days of the contract to connect, unless the Authority otherwise directs the date of the Entry-point;

**F<sub>t</sub>** means the charge floor as determined in accordance with paragraph 2 (4) of this condition;

**RPI** means the value published in October of each year by the Authority and calculated as the percentage change (whether of a positive or a negative value) in the arithmetic average of the retail price index determined in respect of April to September (both inclusive) of the current calendar year and the arithmetic average of the retail price index determined with respect to April to September of the previous calendar year;

**SSP** means Transco's single supply point charges for premises calculated at the prevailing charge in accordance with the prevailing methodology statement for Network Region *r* at the Entry-point; excepting charges for metering arrangements, meter reading, CSEP administration charges, NTS entry capacity charges where determined by auction, or other charges determined in writing by the Authority;

**TC<sub>t</sub>** means the maximum charge the licensee may charge for each premises subject to paragraph 2 of this condition in year 't';

**TC<sub>t-1</sub>** means the maximum charge the licensee may charge each premises subject to paragraph 2 of this condition in the year preceding year 't' or part thereof;

**wSSP<sub>r</sub>** means the change in the average of Transco's single supply point charge from year *t-1* to year *t* for each Network Region *r*. Networks Regions *r* comprise: *r*<sub>1</sub> Scotland, comprising LDZ exit zones SC; *r*<sub>2</sub>

North and Yorkshire, comprising LDZ exit zones NO, NE; r<sub>3</sub> North West, comprising LDZ exit zones NW; r<sub>4</sub> East England, comprising LDZ exit zones EM, EA; r<sub>5</sub> West Midlands, comprising LDZ exist zones WM; r<sub>6</sub> Wales and South West, comprising LDZ exit zones WA, SW; r<sub>7</sub> North London, comprising LDZ exit zones NT; and r<sub>8</sub> South and South East, comprising LDZ exit zones SO, SE. The values for wSSP<sub>r</sub> in respect of each region shall be determined and published in October of each year by the Authority; and

$\Delta_r$  means the annual percentage change in respect of the Network Region r in which the premises are located, and has a value according to the schedule below:

<b>Region</b>	<b>Annual percentage change</b>
r <sub>1</sub> Scotland	0.42
r <sub>2</sub> North and Yorkshire	1.13
r <sub>3</sub> North West	1.40
r <sub>4</sub> East England	1.64
r <sub>5</sub> West Midlands	1.57
r <sub>6</sub> Wales and South West	0.36
r <sub>7</sub> North London	1.23
r <sub>8</sub> South and South East	1.51

3. In respect of legacy sites the licensee shall, within 60 days of 1 January 2004, calculate and notify to the Authority a date by which all such premises shall be charged according to paragraph 2 above, and the Authority shall then direct a date (the “migration date”) as soon as reasonably practicable within six months of the notification.
  - (1) In calculating the above date the licensee shall use its best endeavours to take into account the following factors:

- (a) the migration date shall be calculated on a revenue neutral basis and the notification by the licensee shall include, or the licensee shall otherwise provide as required by the Authority, all necessary information for the Authority to determine the reasonableness of such calculation; and
  - (b) from the migration date, charges determined pursuant to paragraph 5 of standard condition 4 (Charging of Gas Shippers - General) or paragraph 4 of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges) shall cease to have effect for legacy sites.
- (2) Where the Authority directs a migration date or conducts a review pursuant to paragraph 2 (6) of this condition, the Authority shall, in each case and where necessary, direct a migration date so as to achieve the objective of revenue neutrality.
- (3) From the beginning of the calendar year immediately following the migration date, charges determined pursuant to paragraph 5 of standard condition 4 (Charging of Gas Shippers - General) or paragraph 4 of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges) shall cease to have effect for legacy sites.
- (4) From the beginning of the calendar year immediately following the migration date, the charges to shippers in respect of legacy sites shall thereafter be made in conformity with paragraph 2 of this condition subject to charges calculated on the basis of an Entry-point of 1 January 2004, and inclusive of all relevant adjustments to charges specified in this condition since 1 January 2004 up to the migration date.

Definitions:

Legacy site(s) means existing or future premises in respect of which

- a) the licensee has had a methodology accepted by the Authority pursuant to paragraph 4 of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges); or
  - b) the licensee makes, or shall make, charges to shippers under standard condition 4 (Charging of Gas Shippers – General) and at least one premises that forms part of the same clearly identifiable site or project was connected to the licensee’s pipe-line system and gas had entered the premises’ service pipe before 1 January 2004.
4. The Authority may, on written application by the licensee within 60 days of this condition being implemented, consent to charging arrangements other than those required by paragraphs 1, 2 and 3 of this condition. The Authority’s written consent may contain such terms and conditions as the Authority determines necessary.
5. Where charges are made in accordance with paragraph 2, they may include a surcharge subject to the following conditions,
- (a) from 1 January 2004 a maximum surcharge of 0.3412 pence per kWh of gas transported adjusted on 1 January of each year by a factor of  $\left(1 + \frac{RPI}{100}\right)$ . RPI has the same meaning as given in paragraph 2 of this condition;
  - (b) the surcharge has a maximum duration of 20 years from when the surcharge to the relevant shipper first falls due;
  - (c) the surcharge may only apply to existing domestic premises which were in existence for not less than 6 months prior to the provision of the gas main extended specifically for connection of

those premises, and which have not previously received a supply of natural gas;

- (d) the licensee has, on request to provide a connection by the owner or occupier of the premises, extended a gas main to specifically connect the premises;
- (e) the licensee must notify the Authority of the specified amount and specified duration as soon as reasonably practicable but in any event no later than 28 days prior to any such charge falling due; and
- (f) the Authority may direct the licensee not to make the surcharge within 28 days of the notification in (e) above.

6. The licensee shall furnish the Authority with a statement of charges determined in respect of paragraph 2 in a form approved by the Authority. The licensee shall

- (a) publish a statement, or revision or amendment of a statement, furnished, or notice given, under paragraph 2 in such manner as will, in its reasonable opinion, secure adequate publicity for it;
- (b) send a copy of any such statement, revision, amendment or notice so published to any person who asks for one; and
- (c) the licensee shall furnish the Authority with specified information in respect of its charges in a specified form as requested from time to time.

7. References in paragraphs 2 of special condition 1 (Charging of Gas Shippers - Relative Price Control) to charges do not include references to -

- (a) charges related to the acquisition or disposal of gas for purposes connected with the balancing of the licensee's pipe-line system;
- (b) to the extent (if any) to which the Authority has accepted that they should, as respects certain matters, be so determined, to

charges determined by reference to provisions in that behalf set out in the Network Code; or

(c) charges related to the provision of meters or reading of meters.

8. The charging arrangements in paragraph 2 and paragraph 5 shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraph 9.
9. Pursuant to paragraph 8, a licensee, in whose licence this condition has effect, may make a disapplication request in writing to the Authority. The disapplication request shall specify the paragraphs of this condition (or any part or parts thereof) to which the request relates and shall state the date (the “disapplication date”) from which the licensee wishes the Authority to consent that the specified paragraphs (or the specified parts or parts thereof) shall cease to have effect. The disapplication date is a date which is either:
  - (a) not less than 18 months after the date of delivery of the request or more than three years from 1 January 2004; or
  - (b) not less than 10 years after 1 January 2004.
10. The disapplication request may be withdrawn by the licensee at any time prior to the disapplication date.
11. The condition (or any part or parts thereof) to which the disapplication request relates shall cease to have effect from the date specified in the disapplication request or such later date as may be agreed, if the Authority agrees in writing to the disapplication request.
12. If the Authority has not made a reference to the Competition Commission under section 24 of the Act relating to the modification of this licence by the removal of the paragraphs (or any part or parts thereof) specified in the

disapplication request before the beginning of 12 months which will end with the disapplication date and the licensee has not withdrawn the disapplication request, the licensee may deliver a termination notice to the Authority. Following the service of a termination notice, with effect from the disapplication date or such later date as may be specified in the termination notice such of the paragraphs (or any part or parts thereof) as are specified in the disapplication request shall cease to have effect in this licence.

13. If the Competition Commission makes a report on a reference in respect of this licence made by the Authority relating to the modifications of this licence by the removal of the paragraphs (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the removal of such paragraphs (or any part or parts thereof) operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 25 of the Act deliver to the Authority a termination notice. With effect from the disapplication date or such later date as may be specified in the termination notice such paragraphs (or any part or parts thereof) as are specified in the disapplication request and in respect of which the Competition Commission report does not include the aforementioned conclusion shall cease to have effect in this licence.

Definitions:

“Networks regions” r comprise: Scotland, comprising LDZ exit zones SC; North and Yorkshire, comprising LDZ exit zones NO, NE; North West, comprising LDZ exit zones NW; East England, comprising LDZ exit zones EM, EA; West Midlands, comprising LDZ exist zones WM; Wales and South West, comprising LDZ exit zones WA, SW; North London, comprising LDZ exit zones NT; and South and South East, comprising LDZ exit zones SO, SE. Where LDZ exit zones has the meaning given in Transco’s Network Code.

“Transco” means the licensed Gas Transporter Transco including any of its network regions or distribution networks or any successors to Transco or such Regions or Networks.

**Appendix 2 to the Authority’s Notice under section 23(1)(a) of the Gas Act 1986 dated 22 April 2013**

**Condition 4A. Obligations as Regards Charging Methodology**

1. Except in so far as the Authority consents to the licensee not doing so, the licensee shall, subject to paragraphs 2 and 3, from time to time make such modifications of the methodology established in pursuance of paragraph 5 of standard condition 4 (Charging of Gas Shippers – General) (“the charging methodology”) as may be requisite for the purpose of achieving the relevant methodology objectives.
2. Except in so far as the Authority otherwise approves, the licensee shall not make a modification of the charging methodology unless it has -
  - (a) consulted the relevant shippers on the proposed modification and allowed them a period of not less than 28 days within which to make written representations; and
  - (b) furnished the Authority with a report setting out -
    - (i) the terms originally proposed for the modification;
    - (ii) the representations (if any) made by relevant shippers; and
    - (iii) any change in the terms of the modification intended in consequence of such representations,and unless 28 days have elapsed since the said report was furnished without the Authority having given the licensee a direction requiring that the modification be not made.
3. Subject to paragraph 4, the licensee shall in each calendar year furnish the Authority with a report on the application of the charging

methodology during the 12 months preceding 1st October in that year including a statement as to -

- (a) the extent to which, in the licensee's opinion, the relevant methodology objectives have been achieved during the period to which it relates;
  - (b) whether those objectives could more closely be achieved by modification of the charging methodology; and
  - (c) if so, the modifications which should be made for that purpose.
4. As respects the calendar year in which this licence came into force:
  - (a) if it came into force on or after 1st October in that year, paragraph 3 shall not apply; or
  - (b) if it came into force before that date, paragraph 3 shall have effect as if for the reference to the 12 months preceding that date there were substituted a reference to the period preceding that date beginning with the date on which the licence came into force.
5. In paragraphs 1 and 3 "the relevant methodology objectives" means, subject to paragraph 6, the following objectives -
  - (a) that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;
  - (b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; and
  - (c) that, so far as is so consistent, compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.
6. Where -
  - (a) the charging methodology results in charges which, or the revenue derived from which, are, in the main, not controlled or limited in pursuance of any standard condition of this licence

other than standard condition 4 (Charging of Gas Shippers – General) ; and

- (b) the Authority has not accepted that, for a specified period, this paragraph should not apply or has so accepted subject to standard conditions which are not satisfied,

“the relevant methodology objectives” shall include the following objective, namely, that the charging methodology results in charges which, taking one charge with another and one year with another, permit the licensee to make a reasonable profit, and no more, from its transportation business so, however, that, for the purposes of this paragraph, there shall be disregarded -

- (i) costs incurred for the purposes of that business in connection with the construction of pipe-lines for the benefit of an area for the time being designated for the purposes of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges);
- (ii) revenue derived from that business by way of charges (within the meaning of standard condition 4B (Connection Charges etc)) to which any provisions of that standard condition have effect and which are in respect of premises within an area for the time being so designated;
- (iii) revenue derived from that business by way of supplemental charges (within the meaning of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges));
- (iv) revenue derived from that business by way of charges established under paragraph 2 of special condition 1 (Charging of Gas Shippers – Relative Price Control); and
- (v) any payments made by the licensee in connection with the proposed development of an area for the time being not so designated to a person who has an interest in land in that area,

other than by way of reasonable consideration for an interest in land or for goods or services with which the licensee is provided, and, for the purposes of this paragraph, “costs” and “revenue” mean costs and revenue determined on an accrual basis.

7. The licensee shall comply with any direction given from time to time by the Authority requiring the licensee -
  - (a) subject to paragraphs 8 and 9 to publish such information as may be specified or described in the direction-
    - (i) as to any of the costs incurred by the licensee in its transportation business, or
    - (ii) relating to the charging methodology as modified from time to time in accordance with paragraph 1; and
  - (b) to do so in such form and manner and with such frequency as may be so specified.
8. The licensee shall not be required by paragraph 7 to publish any information or any document -
  - (a) which it could not be compelled to give in evidence or produce in civil proceedings before the court; or
  - (b) so far as it comprises information relating to costs incurred in connection with the construction of pipe-lines for the benefit of an area for the time being designated for the purposes of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges) or so incurred in preparation for the area becoming so designated.
9. In publishing any information in pursuance of paragraph 7 the licensee shall have regard to the need for excluding, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests.
10. Any question arising under paragraph 9, as to whether the publication of some matter which relate to the affairs of a person would or might

seriously and prejudicially affect his interests, shall be determined by the Authority.

11. In this condition “transportation business” includes activities connected with the storage of gas in pursuance of storage arrangements which relate to the utilisation of -
  - (a) an offshore gas storage installation;
  - (b) storage cavities in natural strata; or
  - (c) containers for the storage of gas in a liquid state.
  
12. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in particular categories of the facilities mentioned in paragraph 11(a), (b) or (c) and its view on that question, considers it appropriate that paragraph 11 should be modified by the omission of sub-paragraph (a), (b) or (c), then the sub-paragraph in question shall be omitted with effect from a date specified in a notice relating thereto published by the Authority for the purposes of this condition generally; and, if all three sub-paragraphs come to be omitted, paragraph 11 and the reference thereto in the definition of “transportation business” in standard condition 1 (Definitions and Interpretation ) shall cease to have effect.