RPC Guidance - May 2013

Summary

1.1. Special Condition 1[1] of the Independent Gas Transporter ('IGT') Licence requires that IGTs implement a Relative Price Control ('RPC') for non-legacy properties.[2]

1.2. Under RPC, an IGT may not charge in excess of the RPC charge for a given property. The RPC charge is calculated on entry into RPC based on the local Distribution Network's ('DN') charges and methodology in force at that time.

1.3. Once a property has entered RPC its RPC charge is updated based on changes to the DN's charges. Normally, the charge will be updated annually on 1 January and is subject to a floor and ceiling. In some instances, charges for industrial and commercial customers may be updated on a continuous basis, without being constrained by a floor and ceiling.

1.4. This document provides guidance on:

- RPC property types (paragraphs 1.7 – 1.17);
- calculating the RPC entry charge (section 2);
- updating the RPC charge over time (section 3); and,
- submitting RPC information to Ofgem (section 4).

1.5. This guidance document is intended to provide guidance to IGTs on their obligations under Special Condition 1 and on how the Authority will fulfil its role under Special Condition 1. This document is not intended to provide comprehensive legal advice on Special Condition 1 but it is intended to facilitate the efficient operation of the Condition. IGTs acting in accordance with the provisions of this

[1] http://epr.ofgem.gov.uk/document_fetch.php?documentid=12414
[2] Legacy properties are properties that were connected or agreed to be connected before 1 January 2004, subject to certain caveats. The exact definition is given in paragraph 3 of Special Condition 1 of the IGT Licence.

document are more likely to find that they have acted in compliance with our requirements under Special Condition 1 than if they do not. IGTs are accordingly expected to comply with its provisions.

1.6. This document is not a substitute for the IGT Licence or the DNs' charging methodologies. Where an IGT wishes to charge out of line with this guidance it should inform Ofgem.

Property types

1.7. A number of aspects of RPC are affected by the type of property that is connected, including: how the RPC charge is calculated, how it is updated and how information is submitted to Ofgem. There are three types of RPC property:

- New Domestic;
- Industrial and Commercial (I&C); and,
- Domestic Infill.

This section provides a brief explanation of each property type, how the RPC charge is derived on entry and how the RPC charge is updated. For further detail see sections 3, 4 and 5.

New Domestic

1.8. New Domestic Properties are domestic properties that do not qualify for the infill surcharge under Special Condition 1 (the infill surcharge is an additional transportation charge, in pence per kWh, that IGTs may apply to certain domestic properties).

1.9. The RPC charge for New Domestic properties is calculated as an annual charge in pounds per year.

1.10. With the exception of properties entering RPC in the quarter immediately prior to 1 January (1 October – 31 December), RPC charges for all New Domestic

properties are updated on 1 January each year. Charges for properties entering RPC between 1 October – 31 December are updated on the following 1 January. The previous year's charge is changed in line with the average change in the local DN's charges as calculated by Ofgem subject to a floor and ceiling that limits changes in the RPC charge.

Industrial and Commercial (I&C)

1.11. I&C properties are all non-domestic properties.

1.12. The RPC Charge for I&C properties is a unit rate charge in pence per kWh. The annual charge for an I&C customer is calculated by multiplying the RPC charge by the property's Annual Quantity (AQ) for that year. For example, the annual charge for an I&C property with an RPC charge of 0.25 pence per kWh and an AQ of 100,000 kWh, would be 25,000 pence (ie 0.25 * 100,000).

1.13. IGTs can choose one of two options to update the RPC charge for I&C properties. The same option must be chosen for all properties with AQs over 732,000 kWhs and the same option must be chosen for all properties with AQs of less than 732,000 kWhs. For example, an IGT might choose option one for properties under 732,000 kWhs and option two for properties over 732,000 kWhs.

1.14. Option 1: with the exception of properties entering RPC in the quarter immediately prior to 1 January (1 October – 31 December) the RPC charge is updated on 1 January each year in the same manner as a New Domestic property (see paragraph 1.8).

1.15. Option 2: the RPC charge is updated in line with the DN's charges and methodology and any changes in the property AQ on an ongoing basis. Each time there is a change to the DN's charges or methodology or the property's AQ the charge will be recalculated. In this case the charge is not subject to a floor and ceiling.

Domestic Infill

1.16. Domestic Infill properties are domestic properties that qualify for the infill surcharge under paragraph 5 of Special Condition 1 of the IGTs' Licences. The infill surcharge is a unit rate charge in pence per kWh.

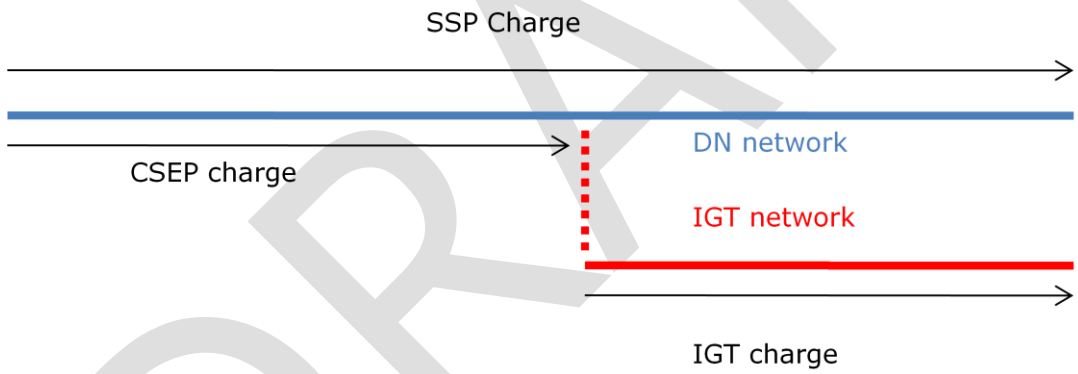
1.17. The RPC charge for domestic infills is calculated by first deriving a unit rate charge in the same way as I&C properties and then adding the infill surcharge. The underlying RPC charge for all domestic infill properties is updated on 1 January each year in the same manner as a New Domestic property (see paragraph 1.8). The infil surcharge is updated in line with RPI on 1st January each year.

2. Calculating the RPC entry charge

2.1. A property's RPC entry charge is calculated based on the local DN's charging methodology in place at the time the property enters RPC. It is equal to the Single Supply Point ('SSP') charge minus the Connected System Exit Point ('CSEP') charge.

2.2. The SSP charge is the DN's 'all the way charge'; it reflects the cost of transporting gas to an individual property.

2.3. The CSEP charge is the DN's charge to transport gas to an IGT site; it reflects the costs of transporting gas to the IGT site boundary.



2.4. In order to calculate the RPC charge it is necessary to understand the RPC parameters and how to apply the DN's methodology.

2.5. The remainder of this section explains:

- the RPC parameters;
- the application of DNs' methodologies to derive the SSP and CSEP charges; and,
- the calculation of the final RPC entry charge for each property type.

RPC parameters

2.6. The RPC parameters required to derive the RPC entry charge are:

- the Site Location;
- the Date of Entry into RPC;
- the Property Annual Quantity AQ;
- the Connected System AQ ('$CSAQ_{RPC'}$); and
- property and site Supply Off Take Quantity. (SOQ)

The Site Location and Date of Entry determine which DN Methodology is used to determine the RPC entry charge. Then the methodology is applied based on the Property AQ and $CSAQ_{RPC}$.

Site Location and Date of Entry

2.7. The Site Location and Date of Entry into RPC, determine which DN charges and methodology should be used to calculate the RPC charge. For example, a property in Scotland entering RPC on the 25 January 2013 would use the Scottish DN's charges and methodology in force on 25 January 2013.

2.8. The Site Location is determined by the Local Distribution Zone (LDZ) that the site is located in. There are 8 DNs each with its own LDZs.

2.9. The Date of Entry into RPC is determined by either the Date of Contract or the Date of Connection. The IGT may choose on a site by site basis whether to use the Date of Connection or the Date of Contract.

2.10. Under paragraph 2(6) of SC1, an IGT has 60 days from the date that the licence is contractually bound to provide a connection to the person requiring the connection to select which option it wishes to use. In the absence of any such selection, the Date of Connection option will be used to determine the Date of Entry.

Date of Contract

2.11. The Date of Contract is the date the licensee is contractually bound to provide a connection to the person requiring the connection.

2.12. Where the Date of Contract option is used, properties will often enter RPC before they are connected. In this case a shadow RPC charge will be calculated based on the expected AQ of the property. The shadow charge will determine the maximum charges shippers face when premises are connected and transportation charges first fall due. Charges will not be levied until a property is connected.

2.13. In some cases, the AQ of the property connected will be different from the property that was initially expected to connect. In this case the shadow charge will be re-calculated based on the actual AQ of the property connected. *(Note: the change in property AQ will not affect the* $CSAQ_{RPC}$*, see below for details.)*

Date of Connection

2.14. The Date of Connection is the date that the property has been connected AND gas has entered the service pipe. It will not necessarily be the date of meter fit or registration of the supply point.

2.15. Where the Date of Connection is used for a site, properties on that site may enter RPC at different times. Each property's RPC charge on entry will be calculated based on the local DN's charges and methodology in place on the Date of Connection.

Property AQ

2.16. Property Annual Quantity (Property AQ) is the estimated annual consumption of a property in kWhs. Once the correct DN methodology has been selected the Property AQ is used to determine:

- The $CSAQ_{RPC}$;
- unit rates used to determining the SSP charge;

- the final SSP charge; and
- the final CSEP charge.

2.17. For RPC purposes, the Property AQ is equal to the NExA AQ measured in kWh and is determined on the Date of Entry into RPC.

2.18. For New Domestic properties this will be determined by the NExA AQ table in the IGT UNC. The NExA AQ table sets out AQs for different property types depending upon the region they are located in and may be updated from time to time. However, on entry into RPC a New Domestic Property's AQ is fixed. It will not be revised due to any changes in the NExA AQ table.

2.19. For I&C and Infill properties this will be the AQ agreed between the IGT and the shipper on entry into RPC.

2.20. *Note: where a property is connected with a different AQ than was originally expected the Property AQ of the property that is eventually connected will be used to derive the RPC entry charge. This will not affect the $CSAQ_{RPC}$, which is based on the properties that were expected to connect, or the charges and methodology which is used to calculate the RPC entry charge.*

2.21. *For example, if a site containing 5 properties, each with an expected AQ of 10,000, is connected the $CSAQ_{RPC}$ will be 50,000. If the properties that actually connect have an AQ of 9,000, the $CSAQ_{RPC}$ will remain 50,000 but the Property AQ of 9,000 will be used to calculate the RPC entry charges.)*

$CSAQ_{RPC}$

2.22. The $CSAQ_{RPC}$ is the total AQ of the site and is estimated upon entry into RPC. Once the correct DN methodology has been selected, the $CSAQ_{RPC}$ is used to establish the unit rates required to determine the CSEP charge.

2.23. The $CSAQ_{RPC}$ is equal to the sum of individual property NExA AQs based on the original development plan that forms part of the binding contractual agreement. For

infill and I&C premises the appropriate estimate of CSEP AQ is the value nominated, via the NExA. The $CSAQ_{RPC}$ does not take into account potential future developments.

2.24. Note: the $CSAQ_{RPC}$ is for RPC purposes only and is not necessarily the same as the Connected System Annual Quantity agreed with the DN ($CSAQ_{DN}$).

2.25. Once determined, the $CSAQ_{RPC}$ is not revised or re-estimated unless a new $CSAQ_{DN}$ is nominated to the DN which exceeds the original $CSAQ_{DN}$.

Re-nominated $CSAQ_{RPC}$

2.26. Where a new $CSAQ_{DN}$ which exceeds the original $CSAQ_{DN}$ is nominated to and agreed with the DN, the IGT may choose to recalculate the $CSAQ_{RPC}$. The new $CSAQ_{RPC}$ will only apply to those properties that have not yet entered RPC. It will not affect properties already within RPC.

2.27. The new $CSAQ_{RPC}$ will be equal to the sum of the individual AQs of all the properties that the IGT is now contractually bound to connect, including properties that have already been connected.[3]

2.28. For New Domestic properties, the individual AQs used will be those in use at the time when the site first entered RPC. For example, where a site that entered RPC in 2005 has its $CSAQ_{RPC}$ updated in 2010, the individual property AQs used to calculate the new $CSAQ_{RPC}$ will be based on the 2005 NExA AQ Table.

2.29. For I&C properties and Infill properties no standard AQ table exists. The I&C property AQs used will be those in place at the time the $CSAQ_{DN}$ is re-nominated. The Infill property AQs will not change.

2.30. Re-nomination of CSAQs applies to future developments at a given site only. Where an IGT connects a secondary site to one of its existing IGT sites, each site will

[3] An explanation of how re-nominated AQ information is recorded is included in section 4.

be treated separately and have its own $CSAQ_{RPC}$. The two $CSAQ_{RPC}$ will not be combined.

Property and site SOQ

2.31. The SOQ is a property or site's maximum quantity of gas a customer or site can take in a day. The property SOQ is used to determine the SSP charge. The site SOQ is equal to the sum of the property SOQs and is used to determine the CSEP charge. The same rules that apply to determining the site AQ apply to determining the site SOQ (see paragraphs 2.22 – 2.30).

2.32. For daily metered customers it is equal to the registered supply point capacity and for non daily metered site it can be derived using the DN's charging methodology based on the customer's Local Distribution Zone (LDZ) and AQ. Applying the DN charging methodology: SSP and CSEP charge

2.33. This section sets out guidance on applying the DNs' methodologies in their current form, as of May 2013. We will endeavour to update this section if and when changes to the DNs' methodologies occur. However, it is the IGT's responsibility to ensure it charges in line with the relevant methodology and they should not rely solely on this guidance.

Charge components

2.34. The SSP charge is comprised of a capacity charge, a commodity charge and a customer charge:

2.35. The CSEP charge is comprised of a capacity charge and a commodity charge, it does not include the CSEP administration charge.

Unit rates

2.36. Under the DNs' methodologies, each charge component has three separate unit rates. The unit rate that applies depends upon the AQ of the property or site in question.

2.37. Currently, for each charge there is a unit rate for:

- small properties/sites with an AQ of up to 73,200 kWh;
- medium properties/sites with an AQ between 73,200 kWh and 732,000 kWh;
- large properties/sites with an AQ of greater than 732,000 kWh.

2.38. The SSP unit rates are determined by the Property AQ and the CSEP unit rates are determined by the $CSAQ_{RPC}$. For example, when calculating the RPC entry charge for a property with an AQ of 500,000 on a site with a $CSAQ_{RPC}$ of 2,000,000, the SSP charge will be derived based on the unit rates for medium sized properties and the CSEP charge will be derived based on the unit rates for large sites.

Capacity charge

2.39. For the SSP charge and the CSEP charge the capacity charge is a pence per peak day kWh charge.

2.40. The SSP capacity charge is equal to the SSP capacity unit rate multiplied by the Property SOQ[4] multiplied by 365:

2.41. The CSEP capacity charge is determined by multiplying the CSEP capacity unit rate by the Property SOQ (the CSEP SOQ should not be used):

4
Load factors are listed by AQ on the Joint Office of Gas Transporters website.

Commodity charge

2.42. For the SSP and the CSEP charge the commodity charge is a pence per kWh charge.

2.43. The SSP commodity charge is calculated by multiplying the SSP commodity unit rate by the Property AQ:

2.44. The CSEP commodity charge is calculated by multiplying CSEP commodity unit rate by the Property AQ:

Customer charge

2.45. Customer charges apply to the SSP charge only.

2.46. For large (AQ greater than 732,000 kWh) and small properties[5] (AQ less than 73,200 kWh) the customer charge is calculated as a capacity charge, measured in pence per peak day kWh. The customer charge will be equal to the unit rate multiplied by the Property SOQ multiplied by 365.

2.47. For properties with an AQ between 73,200 kWh and 732,000 kWh the customer charge consists of a capacity charge calculated as above and a daily charge, measured in pence per day.

[5] Until 2007 the customer charge for small properties was a commodity charge.

NTS charges

2.48. NTS charges should not affect the calculation of the RPC entry charge

Final RPC charge

2.49. Having calculated the annual CSEP and SSP charge for a given property, the final RPC entry charge will depend upon the property type.

2.50. During the year that a property enters RPC, the property will be charged on a pro rata basis but the total annual RPC charge will be used for the purposes of determining next year's charge. For example, if a property enters RPC on 1 August 2010, the RPC charge for 2010 will be 5/12th of the annual charge, but the total annual charge will be used to determine the RPC charge for 2011.

New Domestic

2.51. For New Domestic properties the RPC charge is an annual charge in pence per year. The charge is calculated by subtracting the CSEP charge from the SSP charge.

I&C

2.52. For I&C properties the RPC charge is a pence per kWh charge. The charge is calculated by subtracting the CSEP charge from the SSP charge and dividing by the property AQ.

2.53. The annual RPC charge is then calculated by multiplying the RPC charge by the AQ. The charge is calculated as a unit rate because the AQ of I&C properties may change from year to year. When the RPC charge is updated changes are made to the per kWh RPC charge and then applied to that year's AQ.

Infill

2.54. For Infill properties the RPC charge is also a per kWh charge. The charge is calculated by taking the CSEP charge from the SSP charge and dividing by the property AQ, to a give a per KWh charge and then adding the infill surcharge.

2.55. The Infill surcharge is pence per kWh charge. It was set at 0.3412 pence per kWh for 2004, and is adjusted each year by inflating the previous year's surcharge by RPI on 1 January each year. For new Infill properties the first year maximum surcharge would be the 2004 surcharge adjusted for inflation. For example, an Infill property entering RPC in 2010 would have, in its first year, a maximum Infill surcharge of 0.3412 pence per kWh adjusted by a factor of — each year since 2004. This surcharge would continue to be adjusted in the following years.

2.56. In October each year Ofgem publishes the RPI figure to be used on the following 1 January.

2.57. The Infill surcharge applies for a period of twenty years from when each individual connection is made by a shipper to the network and hence transportation charges to that shipper apply. This surcharge period is not re-started in the event that a connection is transferred to another shipper.

3. Annual charge change

3.1. This section gives a brief summary of the methods used to update the RPC charge for different property types. For more detail, please see Special Condition 1 of the IGT Licence.

New Domestic properties

3.2. For New Domestic properties the existing RPC charge will be adjusted annually on 1 January in line with the average change in the SSP charge for properties within the DN's LDZ - the 'wSSP uplift'. Where properties enter RPC in the quarter immediately preceding 1 January (1 October to 31 December) charges are not updated until the following year. For example, a property entering RPC in October 2012 will not have its charge updated until 1 January 2014.

3.3. The annual change is limited by a floor and ceiling, calculated on entry into RPC and adjusted annually in line with RPI and an annual percentage change. The annual percentage change for each region is set out in paragraph 2 of Special Condition 1.

3.4. The wSSP uplift for each LDZ and RPI are published by Ofgem in October each year, and apply from 1 January the following year.

I&C properties

3.5. For I&C customers the IGT has two options:

Option 1: annual adjustment

3.6. Under Option 1 the IGT adjusts the charge in the same manner as a New Domestic property. This change is applied to the pence per kWh charge (rather than the annual charge) which will then be multiplied by the Property AQ for that year.

Option 2: continuous tracking

3.7. Under Option 2 the charge is recalculated on a continuous basis, in the same manner as the RPC charge is calculated on entry. The recalculation will be based on:

- the DN's methodology in place at the time;
- the property's AQ at the time;
- the $CSAQ_{RPC}$ in place when that property entered RPC, or the re-nominated $CSAQ_{RPC}$.

3.8. The charge will be recalculated:

- each time the DN's charges and/or methodology changes; and,
- each time that the property's AQ changes, the RPC charge will be recalculated (note: in some cases a change to the AQ may not affect the RPC charge).

3.9. For example, if the DN updates its methodology in October 2011 a new RPC charge will be calculated, based on that methodology. Or if the property's AQ is then revised on 1 January the RPC charge will be recalculated based on the new AQ and the existing methodology.

3.10. The RPC charge will then be applied on a pro rata basis until the RPC charge changes again. For example, for a property with an AQ of 100,000, if a given unit rate RPC charge is in place for 6 months, the total charge for those six months period would be calculated by multiplying the unit rate by 50,000 – i.e. half the annual quantity.

3.11. The IGT must choose the same option for all I&C properties with an AQ of less than 732,000 kWh (small I&Cs) and the same option for all I&C properties with an AQ of greater than 732,000 kWh (large I&Cs). The IGT may choose a different option for small and large I&Cs.

3.12. Where the IGT chooses to recalculate the RPC charge each year (Option 2), they will need to resubmit the relevant RPC monitoring template, with annually updated AQs.

Domestic Infill properties

3.13. Domestic Infill properties' charges comprise two sections the 'normal' charge that would apply to a New Domestic property (i.e. the SSP charge less the CSEP charge) and the Infill surcharge.

3.14. The normal charge will be adjusted in the same manner as a New Domestic property's charge, subject to the floor and ceiling.

3.15. The Infill surcharge is adjusted annually on 1 January in line with RPI and then added to the normal charge. Where properties enter RPC in the quarter immediately preceding 1 January (1 October to 31 December) charges are not updated until the following year. Ofgem publishes the RPI figure to be used the following year in October.

3.16. The addition of the Infill surcharge is not subject to the floor and ceiling. For example, where the normal charge is limited by the ceiling, the Infill charge will be added to the ceiling charge to determine the total RPC charge for that year.