

Gas Transporters and Shippers

*Promoting choice and  
value for all customers*

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Dear Colleagues,

### **Proposed Change to GDN Charging Methodology**

Further to amended Standard Special Condition (SSC) A5 (Obligations as Regard Charging Methodology) of the gas transporter's licence, the Authority received a joint GDN consultation report on 19 December 2006. The proposal detailed a change to the method of calculating domestic load band Customer Charge from a commodity to capacity based approach. This change is consistent with the conclusions of Ofgem's review of the structure of gas distribution charges published in February 2006<sup>1</sup> (Ref 38/06)

Having considered the proposal and the representations from industry, the Authority is satisfied that implementing this change on 1 April 2007 is requisite for the purpose of achieving the relevant methodology objectives set out in SSC A5 of the gas transporter's licence. Specifically the Authority considers that the proposal will lead to greater certainty and stability in gas distribution charges.

The proposal also recommended that this change be implemented on 1 April 2007, instead of the usual 1 October date set out in the licence. The GDN consultation report received five representations from industry on this issue. Ofgem separately consulted on the timing of our proposed change in our October consultation document<sup>2</sup>. Ten respondents commented on the issue. These responses are available on our website. All the gas distribution networks supported the introduction of the change from 1 April 2007. The rest of the responses were from shippers with three supporting a 1 April change and four opposing it.

Implementing the change on 1 April at the beginning of the price control formula year will enable the charge to be set at a more appropriate level than if introduced on 1 October

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<sup>1</sup> [Conclusions on the review of the structure of gas distribution charges, 38/06](#)

<sup>2</sup> [Reform of interruption arrangements on gas distribution networks - An update, 191/06](#)

and will increase the stability of charges going forward. Further to the amendment provisions in SSC D11 (Charging obligations), the Authority has today therefore issued a direction to the GDNs to implement the change in the method of calculating the Customer Charge for domestic customers from a commodity to capacity basis on 1 April 2007. However the Authority is also minded that the interim arrangement of aggregating the new Customer Capacity Charge with the standard LDZ Capacity Charge could reasonably be expected to expire on 1 October 2007 by which time Ofgem considers sufficient time will have elapsed to allow the permanent arrangements to be put in place.

If you have any queries please contact [john.mcnamara@ofgem.gov.uk](mailto:john.mcnamara@ofgem.gov.uk) (phone 0207 901 7035).

Yours sincerely

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