

**UNITED UTILITIES GAS NETWORKS LIMITED****Condition 4C Charging Methodology - Supplemental Connection Charges****1. Introduction**

This document sets out the main principles and assumptions on which United Utilities Gas Networks Ltd's (UUGN) Charging Methodology pursuant to Condition 4C of its Public Gas Transporter's Licence is based.

UUGN will levy supplemental connection charges in accordance with Standard Condition 4C of the Public Gas Transporter's Licence ("Condition 4C Charges") to recover costs incurred in whole or part to the laying of pipes for the purpose of conveying gas to a premise in an area where the Director General has given a designation to do so.

**2. The Principles Underlying the Charging Methodology**

The transportation charges levied by UUGN will recover the costs incurred in constructing and operating networks; business set up and sustaining costs; and a rate of return appropriate to the commercial risk associated with its activities. Costs are allocated between Condition 4 and Condition 4C pools on the basis of cost drivers.

Business set up and sustaining costs, and ongoing operational costs are recovered via Condition 4 Charges. The suitability and application of these charges is reviewed periodically pursuant to Standard Condition 4 of the GT Licence and a report is submitted to Ofgem annually together with a description of how the charges meet the relevant objectives.

Condition 4 Charges will also be used to recover costs incurred in whole or part to the laying of pipes for the purpose of conveying gas to premises which are not recoverable as supplemental connection charges in areas which are not designated by the Director General.

Condition 4C charges are site specific and recover capital costs incurred in constructing networks over a specified period of time.

UUGN's Condition 4 Charging Methodology (which is available on request) sets out the way in which charges are levied to recover business set-up costs and on-going operating costs.

### **3. Components of the Condition 4C Charge**

Condition 4C charges are set on a site by site basis and reflect their individual characteristics (e.g. location, housing density, house type, distance from the nearest Transco main, operating pressure, ground conditions etc.).

A list of the cost components which are allocated to the Condition 4C pool is given in Appendix 1.

### **4. Period of Designation**

The period of designation is 25 years. UUGN will, however, seek to recover all costs, and earn an appropriate return, over a target period of 20 years. The “extra” 5 years of the designated period are required to enable UUGN to recover its required revenues by extending the duration over which supplemental connection charges are levied on Shippers should there be unrecovered revenues at the end of year 20. These arrangements enable UUGN to collect its required revenues without the requirement to increase charges to Shippers in the latter stages of the 20 year period should it be likely to undershoot the required revenue target by the end of year 20. For a particular site, there will be a single fixed Condition 4C Charge per capacity band per domestic Supply Point per Day.

Condition 4C Charges for non-domestic premises will be considered on a case by case basis using the same principles.

An example of how charges are applied is given in Appendix 2.

### **5. Meter Charges**

If UUGN provides a standard credit meter the capital cost of this will be included in the Condition 4C Charge and the costs of operating, maintaining and replacing it will be recovered via the Condition 4 Charge.

UUGN will, pursuant to Standard Condition 23 of the GT Licence, comply with any reasonable request by a relevant Shipper to provide and install at the premises of a domestic customer a gas meter owned by UUGN and of a type specified by the Shipper subject to a meter of that type being reasonably available to it and the Shipper agreeing to pay its one off charges in respect of the meter. These charges will be calculated as UUGN’s cost of procurement and installation or replacement for the meter requested less any remaining useful value attributed to the meter removed.

Where a meter is provided, maintained and operated by a third party (e.g. Shipper, Consumer, etc.) The Condition 4C transportation charges will be reduced by an appropriate amount. The reduction in Condition 4C charge will apply for the period in which the meter is provided, maintained and operated by a third party. The reduction in daily Condition 4C charge will

equate to the cost of procuring and installing the UUGN standard credit meter, direct fittings and overhead discounted over the target period of 20 years.

In the circumstances where UUGN installs and charges for the provision of a meter and the meter is subsequently replaced and returned in good order by a third party which provides a meter thereafter, the Condition 4C Charges paid by the relevant shipper will be reduced to reflect this situation. The reduction in Condition 4C charge will apply for the period in which the meter is provided, maintained and operated by a third party. The reduction in daily Condition 4C charge will equate to the net remaining useful value attributed to the meter removed discounted over the remaining target period.

## 6. Construction of Charges

The Condition 4C Charge is levied in respect of the provision and installation of distribution mains, service pipes and associated apparatus to form a network. It is a function of the network's location relative to Transco's existing infrastructure; ground conditions; the types of dwellings and their configuration; the number of Supply Points on the site; and the annual consumption of these Supply Points. This information is used to design, and estimate the cost of installing, the network and to allocate capacity to different Supply Points according to their peak hour design consumptions.

Each domestic Supply Point is allocated to one of four capacity bands.

Bands	Therms per Annum
A	0 - 500
B	501 - 750
C	751 - 1500
D	1501 - 2500

A Supply Point is allocated to a capacity band on the basis of the design AQ of the Supply Point used when designing the network. There is a single fixed Condition 4C Charge per day for all Supply Points in a given capacity band. UUGN believes that four capacity bands for domestic Supply Points achieves the correct balance between cost reflectivity and simplicity.

There may be a wide range of non-domestic annual consumptions, load factors and supply pressure requirements which may result in a number of different non-domestic capacity bands. UUGN will use its best judgement to establish capacity bands, and allocate non-domestic Supply Points to those bands, in a manner which accurately reflects the costs incurred in designing and building the network capacity required to supply such Supply Points.

## 7. The Charges

UUGN's analysis shows that all of the costs allocated to its Condition 4C pool are essentially capital in nature and that they are not significantly affected by actual consumption and we therefore consider a single fixed charge to be cost reflective for Condition 4C Charges.

The "**Condition 4C Charge**" will be a single charge per Supply Point per Day in each capacity band.

**APPENDIX 1****Listing of Typical Costs Allocated to Condition 4C Charges**

- Transco's CSEP connection charge
- Network Design
- Installation of Distribution Mains
- Testing & Commissioning of Distribution Mains
- Installation of Service Pipes
- Connection of Service Pipes
- Testing & Commissioning of Service Pipes
- Installation, Testing and Commissioning of Pressure Regulating Equipment
- Meter Provision & Connection
- Supply & Installation of Meter box
- Site Supervision and Quality Assurance
- Fees for Ofgem Licence Extension and statutory notices
- Site Set up Charges for Emergency Services Cover Contract
- Project Management
- Wayleaves

**APPENDIX 2****Example of Transportation Charges**

The following example demonstrates how transportation charges levied on Shippers on UUGN's networks are calculated. The example is not based on an actual network and the figures used have been chosen arbitrarily for the sole purpose of demonstrating the application of the charging methodology.

Assume a shipper wishes to ascertain the transportation charges for Supply Points for a network with the following characteristics:-

- A total of 60 Supply Points 30 falling into each of capacity bands 1 (0-500 TPA) & 2 (501-750 TPA).
- Band 1 Condition 4C Charges of 14 pence per Day per Supply Point and Band 2 Condition 4C Charges of 16 pence per Day per Supply Point.
- Condition 4 Charge of 6 pence per Day per Supply Point.
- Standard U6 credit meters are provided at each Supply Point by UUGN.

The total daily transportation charge to a Band 1 Supply Point is  $14 + 6 = 20$  pence per Day and the total charge for a Band 2 Supply Point is  $16 + 6 = 22$  pence per Day.

Thus, the total annual transportation charge to a Band 1 Supply Point is £73 and the total annual transportation charge to a Band 2 Supply Point is £80.30.

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**UNITED UTILITIES GAS NETWORKS LIMITED****Condition 4 Charging Methodology****1. Introduction**

This document sets out the main principles and assumptions on which United Utilities Gas Networks Ltd's (UUGN) Charging Methodology pursuant to Condition 4 of its Gas Transporters' Licence is based.

UUGN will levy charges in accordance with Standard Condition 4 of the Public Gas Transporter's Licence ("Condition 4 Charges") to recover costs incurred in day to day operations and those costs incurred in whole or part to the laying of pipes for the purpose of conveying gas to a premise which are not recoverable as supplemental connection charges.

**2. The Principles Underlying the Charging Methodology**

The transportation charges levied by UUGN will recover the costs incurred in constructing and operating networks; business set up and sustaining costs; and a rate of return appropriate to the commercial risk associated with its activities. Costs are allocated between Condition 4 and Condition 4C pools on the basis of cost drivers.

Business set up and sustaining costs, and ongoing operational costs are recovered via Condition 4 Charges. The suitability and application of these charges is reviewed periodically pursuant to Standard Condition 4 of the GT Licence and a report is submitted to Ofgem annually together with a description of how the charges meet the relevant objectives.

Condition 4 Charges will also be used to recover costs incurred in whole or part to the laying of pipes for the purpose of conveying gas to premises which are not recoverable as supplemental connection charges in areas which are not designated by the Director General. In this case the Condition 4 charge will be site specific.

Condition 4C Charges are site specific and recover capital costs incurred in constructing networks over a specified period of time. UUGN's Condition 4C Charging Methodology (which is available on request) sets out the way in which these charges are levied.

**3. Components of the Condition 4 Charge**

A list of the cost components which are allocated to the Condition 4 pool is given in Appendix 1.

**4. Meter Charges**

If UUGN provides the meter, the cost of its operation, replacement and maintenance will be included in the Condition 4 Charge.

Where a meter is provided, maintained and operated by a third party (e.g. Shipper, Consumer, etc.) the Condition 4 transportation charges will be reduced by an appropriate amount. The reduction in Condition 4 charge will apply for the period in which the meter is provided, maintained and operated by a third party. The reduction in daily Condition 4 charge will equate to the cost of operation, replacement, maintenance and overhead directly relating to UUGN's standard domestic credit meter.

In the circumstances where UUGN installs and charges for the provision of a meter and the meter is subsequently replaced and returned in good order by a third party which provides a meter thereafter, the Condition 4 Charges paid by the relevant shipper will be reduced to reflect this situation. The reduction in Condition 4 charge will apply for the period in which the meter is provided, maintained and operated by a third party. The reduction in daily Condition 4 charge will equate to the costs relating to operation, replacement, maintenance plus overhead directly relating to UUGN's standard domestic credit meter.

## **5. Construction of Charges**

Where the site is designated under Condition 4C UUGN's Condition 4 Charges recover the on-going operational costs of the business which are not specific to a particular network. The charges are set annually based on UUGN's forecasts of costs and the number of Supply Points that will be connected over the year. Where there are significant differences between operational costs for different classes of customers, the charges for each class may be different. The initial business set-up costs are recovered over the first 5 years of operation. In the case of a network which is not eligible for designation under Condition 4C the Condition 4 charge will be site specific and will include the aforementioned charge to recover the on-going operational costs.

The charge for a class of domestic supply points for a given year is constructed by dividing the sum of the forecast on-going costs attributable to that class of domestic supply points for the year, and that class' share of the under or over recovery from the previous year and 20% of the set up costs, if appropriate, uplifted to give an appropriate return by the forecast number of live domestic Supply Point Days for the year. This calculation produces a Condition 4 Charge per Supply Point in pence per Day for that class of domestic supply points which will recover all of the identified costs over the year. One example of a class of domestic customers which may have different Condition 4 charges is flats which may have additional operating costs associated with steel risers.

There may be a wide range of non-domestic annual consumptions, load factors and supply pressure requirements. These may result in increased operational costs and in order to ensure cost reflectivity UUGN will on a case by case basis use its best judgement to establish a Condition 4 charge for each individual non-domestic supply point which accurately reflects the operational costs incurred.



An example of how the domestic charges are applied is given in Appendix 2.

## **6. Other Charges**

UUGN will introduce other categories of charge to recover specific on-going costs encountered in installing, and operating its networks and not accounted for in its current charging methodology. Any such change to the methodology will be treated as a modification to the methodology in accordance with Standard Condition 4(2) of the GT licence.

**APPENDIX 1****Listing of Typical Costs Allocated to Condition 4 Charges****Business Set Up Costs**

- Consultancy fees
- Company set-up costs
- Legal fees
- Office establishment costs (e.g. IT hardware & software, communications equipment, office furniture and equipment, technical library etc.)

**Operating Costs**

- Salaries, Training, Travel and Subsistence
- Office Costs (rent, rates, heat & power,)
- Depreciation of “Condition 4 Assets”
- Facilities Management
- Sales and Marketing
- Customer Service & Invoicing
- Ofgem Annual Fee
- Legal and Professional Fees
- Financial (Bank charges, audits, bad debt, theft of gas etc.)
- Emergency Service
- Network Maintenance
- Infrastructure Replacement
- Financial Costs ( bad debt, audits, storage and maintenance of site records)
- Compensation Payments
- Capital costs incurred in whole or part to the laying of pipes for the purpose of conveying gas to premises which are not recoverable as supplemental connection charges.
- Rates and Taxes

## **Example of Transportation Charges**

The following example demonstrates how the transportation charges levied on Shippers on UUGN's networks are calculated. The example is not based on an actual network and the figures used have been chosen arbitrarily for the sole purpose of demonstrating the application of the charging methodology.

Assume a shipper wishes to ascertain the transportation charges for Supply Points for a network with the following characteristics:-

- A total of 60 Supply Points 30 falling into each of capacity bands 1 (0-500 TPA) & 2 (501-750 TPA).
- Band 1 Condition 4C Charges of 14 pence per Day per Supply Point and Band 2 Condition 4C Charges of 16 pence per Day per Supply Point.
- Condition 4 Charge of 6 pence per Day per Supply Point.
- Standard U6 credit meters are provided at each Supply Point by UUGN.

The total daily transportation charge to a Band 1 Supply Point is  $14 + 6 = 20$  pence per Day and the total charge for a Band 2 Supply Point is  $16 + 6 = 22$  pence per Day.

Thus, the total annual transportation charge to a Band 1 Supply Point is £73 and the total annual transportation charge to a Band 2 Supply Point is £80.30.

**UNITED UTILITIES GAS NETWORKS LIMITED****Condition 4B Charging Statement****1. Introduction**

This document sets out the basis on which United Utilities Gas Networks Ltd (UUGN) levies charges in relation to the provision of a new, augmented or reduced connection.

The connection charge levied in relation to the provision of a new, augmented or reduced connection will be based on UUGN's estimate of the costs of the work to be carried out by UUGN for the specific benefit of the party seeking the connection less any allowance UUGN offsets on the basis of future transportation revenues. Any connection charge will be subject to the conditions of UUGN's Siteworks Agreement.

**2. Charging Methodology**

The connection charge will depend on the requirements of the party seeking the connection, and on the configuration, capacity and operating pressure of the network at the point of connection. It will also be dependent upon ground conditions and other site specific physical parameters.

The connection charge will be determined from the estimated costs (including overheads and reasonable rate of return) of the minimum fit for purpose scheme which would meet the requirements of the connection for the sole benefit of the party requesting the connection based on sound engineering judgement and best industry practice.

Where the works designed and installed by UUGN are capable of accommodating additional connections requested by other parties then the costs of the scheme designed and installed will be apportioned between the relevant parties on a cost reflective basis.

The connection charge will include the costs of reinforcement of UUGN's network required for works for a new or augmented connection and any consequent reinforcement of the Public Gas Transporter's network to which UUGN's network is connected.

In certain circumstances the party requesting the connection will be required to make a payment in respect of assets which have been installed previously and which are used for the purpose of ensuring an adequate supply to that party, or for fulfilling statutory requirements.

### **3. Self Lay Connections**

A party requiring a connection may choose to carry out themselves those parts of the work that UUGN deems can be installed by the requesting party or a contractor working on their behalf. In these circumstances, UUGN will pay any allowance that would have been offset against UUGN's costs of providing the connection to the party making the connection.

Self lay connections are subject to the conditions of UUGN's Self Lay Procedures.

### **4. Ten Metre Rule**

Pursuant to Standard Condition 4B(1) of the Public Gas Transporters Licence, UUGN will not charge for the first 10 metres of service pipe installed in the public highway for the purposes of connecting to its network premises consuming less than 2,500 therms per annum.

### **5. Network Exit Agreement (NExA)**

Points of Connection between UUGN's Networks and an upstream or downstream GT will be subject to a Network Exit Agreement (NexA) between UUGN and the relevant transporter. This Agreement will define the delivery/offtake point on UUGN's system and the terms of operation of the interface between the two transporters.

### **6. Asset Ownership and Entitlement**

The assets connected to UUGN's existing network for the purpose of supplying any new Supply Point(s) will be owned, operated and maintained by UUGN, and UUGN shall be entitled to use such assets for the purpose of giving supply to others.

### **7. Condition 4B(3) – Connection Charges for Premises**

Condition 4B(3) of the Licence requires the GT to set out the methods and principles on which the charges for connections to certain classes of premises are determined.

#### **(A) Individual Premises Using Less Than 73,200kWh (2500 therms) per Annum**

Where the premises are within 23 metres of an UUGN relevant main the statutory allowance is given so that the first 10 metres of pipe laid in the public highway is free of charge. All other pipework and associated apparatus is charged at cost plus 25%.

No charge is made for connection of a pipe laid pipe under section 10(2)(b) of the Act by the owners or occupiers of premises consuming less than 2,196,000 kWh (75,000 therms) per annum.

**(B) Individual Premises Using More Than 73,200kWh (2500 therms) per Annum**

The pipework and associated apparatus is charged at cost plus 25%.

No charge is made for connection of a pipe laid pipe under section 10(2)(b) of the Act by the owners or occupiers of premises consuming less than 2,196,000 kWh (75,000 therms) per annum.

**(C) Individual Premises Using More Than 2,196,000kWh (75,000 therms) per Annum**

The connection, pipework and associated apparatus are charged at cost plus 25%.

Disconnections are charged at cost plus 25%.

**(D) Reinforcement**

Reinforcement is not chargeable for single premises expected to consume less than 73,200 kWh (2500 therms) per annum.

In all other cases reinforcement is charged at cost plus 25%.