

Hyder Gas Networks Limited

CONDITION 6 CHARGING METHODOLOGY – THE SUPPLEMENTAL CONNECTION CHARGE

Introduction

1. Hyder Gas Networks Limited (HGNL) is a wholly owned subsidiary of Hyder plc.
2. HGNL recovers its costs related to the building and operating its PGT networks using both Condition 3 and Condition 6 charging methodologies. These costs are allocated to either Condition 3 or Condition 6 on the basis of cost allocations listed in its Condition 3 and Condition 6 statements.
3. Condition 3 charges will not generally vary from site to site whereas condition 6 charges are site specific and will therefore vary from site to site. Condition 6 charges are only applicable after a designation for a specific site has been granted by OFGEM. The charging methodology relating to Condition 3 is outlined in a separate document which is available on written request from:

Hyder Gas Networks Limited
PO Box 295
Alexandra Gate
Rover Way
Cardiff
CF24 5UE

The Charging Methodology – Condition 6

4. Condition 6 charges (the supplemental connection charge) recover costs associated wholly or partly with the provision and laying of a distribution network over a set period of time. This includes costs associated with designing and installing the network that can include a PRS, infrastructure mains, site mains, services and meters, and also the connection to and reinforcement of the upstream PGT network. It also includes other site-specific costs such as project management, license extension costs together with certain capitalised operating costs supporting the provision of the network. The charges are site specific and are only applicable after a designation has been granted by OFGEM.
5. Charges under Condition 6 will be on a site by site basis recognising that different site characteristics (such as size, location of supply points, type of ground etc.) will result in different levels of costs for individual items for different sites. The cost items are listed below.
6. Meter provision is, in principle, a contestable activity. The cost of meter

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provision will be included but separately identified in the costs. Meter provision costs may vary depending on type of meter, for example pre-payment and credit. Where the meter is provided by a third party this will be reflected in a reduced charge. When HGNL initially charges for the provision of a meter and the meter is subsequently replaced and returned in good order (but not at HGNL's expense) to a location determined by HGNL by an owner other than HGNL the amount payable by the shipper will be correspondingly reduced.

7. If, pursuant to Standard Condition 23 of the PGT license, a shipper requests HGNL to procure and install a meter to the shipper's specification and which is reasonably available to HGNL, HGNL will meet this request subject to any abnormal costs associated with the request being met by the shipper; HGNL will identify and notify the shipper of any such abnormal costs.
8. HGNL will consider costs under this condition as "capital" and seek to recover the costs under the condition over a 20 year target period but requests that designations are for a period of 25 years. If it is apparent that costs will not be recovered over the 20 year period this allows HGNL the option of extending the charging period for up to five years. HGNL believes that this is preferable to increasing charges in the final years of the 20 year period. In the event that HGNL does not expect to recover its costs by the end of the 20 year period HGNL will inform both the Director and relevant shippers as soon as practicable of how it will recover its costs.
9. HGNL will recover all costs and earn an appropriate rate of return over the target recovery period taking account of the business risk and cost of capital. The resulting charges will therefore be on a fixed charge per property basis for each designated area. The charges will be established on a per day basis and billed monthly.
10. The total fixed charge of a development to be recovered under Condition 6 will be allocated to different types of property on the basis of peak kWh per property type. As the costs are determined by design criteria, HGNL will set charges based on the specific design data.
11. HGNL will endeavor to set charges on the basis of accurate forecasts and does not seek to benefit or be unreasonably penalised for forecasts that are produced using sound principles but which prove to be inaccurate. Therefore HGNL may adjust charges, if for example, the forecast number of supply points is inaccurate or the profile of supply points over time is inaccurate.

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Costs recovered under Condition 6

Upstream PGT costs:

- Offsite Reinforcement
- Approach Main
- Connection Cost
- Governor Installation
- Non Standard Charges

Hyder Gas Networks Limited costs:

- PRS: PRS Equipment
- Civil Works and installation
- Other Charges

- Offsite feeder costs
- Onsite infrastructure mains including “other costs”
- On site mains where actual developer site plans
- On site services
- Meter provision costs

Other project specific costs:

- Wayleaves and easements
- Emergency set up costs for site
- Other project costs not specified above and one off contingencies

Overhead recovery:

(i) Specific overhead recovery elements associated with a designated area:

- Project management
- Finance costs
- Rate of return
- Tax
- OFGEM Licence extensions, legal fees, professional fees

(ii) An allocation of the operating cost base listed in the glossary of operating costs is also recovered as part of the capital overhead since these costs support the provision of assets to the designated area.

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Glossary of terms

Upstream PGT costs:

Offsite Reinforcement

The upsizing of existing mains upstream of the network to provide sufficient capacity to supply a new site downstream.

Approach Main

The nearest main with sufficient capacity may not be directly outside the site, therefore the upstream PGT will provide a suitable connection point and lay the approach main to the site.

Connection Cost

The cost for the upstream PGT to visit a site, fit a pressure & purge point or valve.

Governor Installation

If a connection of a Medium/Intermediate Pressure main is required HGN may negotiate with the upstream PGT to install the governor. This allows them to upsize the Governor at their cost if they wish to reinforce their network.

Non Standard Charges

In the unlikely occurrence that other PGT pressure recording equipment will be located on our site.

Hyder Gas Networks Limited costs:

PRS Equipment

Above or below ground Pressure Reduction Station.

Civil Works and installation

The installation costs of a PRS and the concrete base required. (Concrete base will usually be the responsibility of the developer to [HGNL] specification).

Other Charges

The unlikely occurrence of Telemetry and pressure recording equipment.

Offsite feeder costs

The nearest main with sufficient capacity may not be directly outside the site, therefore the upstream PGT will provide a suitable connection point and HGNL will lay the approach main to the site.

Onsite infrastructure mains

When costing a large development site with a spine main through the site.

Other Charges

The possibility of additional costs for example, special crossing over a bridge, directional drilling, and valves.

On site mains –costs of mains connected to the infrastructure main.

On site services - costs of service connection from main to property.

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Meter provision – the purchase, installation and administration associated with the provision of a meter.

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Example of calculation of Condition 6 charges

Condition 6 charges are calculated in two parts, the non meter element (mains, services etc.) and the meter. Condition 6 charges, for the non meter element, are banded and depend on the peak load of a property. They are site specific and would be expected to be levied for 20 years. The following example illustrates the method used to calculate the Condition 6 charges for an imaginary site. For simplicity it is assumed that all the properties are in two bands. All figures are illustrative.

Non metering costs

Total cost of installing network including overheads but excluding meters:

£49,980

Band	Number of properties	Peak day load	Peak day load per band
Band A	100	50kWh	5000kWh
Band C	50	70kWh	3500kWh
Total			8500kWh

Since all non meter costs are apportioned by peak load the cost for each kWh of peak load can be calculated:

$$\begin{aligned} \text{Cost per kWh of peak load} &= 49980/8500 \\ &= \text{£}5.88 \text{ per peak day kWh} \end{aligned}$$

This cost can then be used to apportion costs to the different bands. Dividing by 20 gives the cost in £ per year and multiplying by 100 and divided by 365 gives the cost in pence per day:

Band	Total cost each house	Cost each year	Cost each day
Band A	50*5.88 = £294.00	£14.70	4.027p
Band C	70*5.88 = £411.60	£20.58	5.638p

Meter costs

Meter costs are recovered by averaging the meter costs over all the properties on a site and charging each property the same price. Assume there are two types of meter:

Meter	Total cost of installation	Number
Type 1	£100	30
Type 2	£110	120

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Total cost of the meter installation = $100 \times 30 + 110 \times 120$
= £16200
Average cost of meter installation = $16200 / 150$
= £108
Annual cost per meter = $108 / 20$
= £5.40
Daily cost per meter = 1.479p

Total Condition 6 charge

This is the sum of the non meter cost and the meter costs:

Band	Non meter cost each day	Meter cost each day	Total cost each day
Band A	4.027p	1.479p	5.506p
Band C	5.638p	1.479p	7.117p

The Condition 6 charge quoted is the total figure, a rebate equal to the meter cost each day will be given where the shipper installs its own meter.

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