

To all IGT/UIP customers

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Dear customer

CHANGE TO CHARGING FOR FINAL CONNECTIONS UNDERTAKEN BY GTs AND UIPs

As you will be aware, in July 2002 we introduced a final connections process for connections to our below 7 barg. gas distribution networks. Prior to this all GTs and UIPs required National Grid¹ to undertake the final connections to our distribution network and these were charged for on a cost recovery [applicable labour, materials and associated overheads] basis in line with Condition 4B of our Licence.

This voluntary model of allowing connections to be undertaken by GTs and UIPs exceeds our Gas Act duty and has contributed significantly to a substantial increase in competitive connections from circa. 2,500 to 6,600 connections per annum.

Cost contribution to the third party connections service is now only met by those GTs and UIPs requesting National Grid to connect and this happens for only a minority of such connections.

In line with our Licence Condition 4B we have assessed the most appropriate method to ensure cost recovery of National Grid's activities for both GT and UIP connections in relation to;

- the administration and technical validation of the requests received; and,
- the update to our mapping and asset record systems.

To address these issues we propose to introduce standard charges for the submission of connection requests where National Grid will not be undertaking the connection. The standard charges applicable will be as follows:

- | | |
|--|------|
| - Gas transporter [including Agents] request to connect a pipe-line system | £100 |
| - Utility Infrastructure Provider [UIP] request to connect a premises | £140 |
- The UIP charge is not applicable to service alterations, service disconnections and new service connections of a pipe size less than or equal to 32mm.

¹ Formally Transco prior to Network Sales in 2005.

We propose to introduce this new charge in the following way to mitigate the impact on all parties:

1. Implementation Date – We will apply the new standard charges to all new connection requests received on or after 3 November 2008, thus allowing time for you to reflect the new charges in quotes which you will provide to your customers.
2. Billing Process – To avoid a high invoice transaction rate, invoices will be issued monthly in arrears with 30 day payment terms listing the jobs submitted. There will be no pre-payment required.
3. National Grid connection charges - To ensure the same treatment across all our connections activities, for National Grid connections we have introduced both a separate administration element (in addition to the other activities cover in the related connection overheads) and are implementing a gross profit of 12%. Notification of this change will be issued as part of our publication of our revised standard charges on 1 August. This should improve the environment for competition and allow competition in connections to develop further.
4. Scope limitation - The charges are not applicable to service alterations, service disconnections and new service connections of a pipe size less than or equal to 32mm.

I hope that you can understand the requirement to ensure cost recovery from customers who use this service and that this has been as a direct result of us encouraging third parties to undertake the physical connection works, which has allowed competition to develop substantially.

We will be issuing a series of questions and answers to assist in managing this change, however, please feel free to contact Tony Nixon on Tel. 01926 656345 should you require further clarification.

Yours sincerely

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