



Shippers, Transco and other  
interested parties

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customers*

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Dear Colleague,

**Modification proposal 0670 'Requirement for publication of Transco's revenue flows against target'**

British Gas Trading (BGT) raised modification proposal 0670 on 14 November 2003.

Ofgem has considered the issues raised in this modification proposal and all responses received and we have decided to direct Transco not to implement this proposal as it would not allow Transco to better facilitate the relevant objectives as set out under standard condition 9 of its Gas Transporter (GT) licence.

In making this decision, Ofgem had regard to its statutory duties, Transco's obligations under its GT licence and all relevant facts.

The reasons for making this decision are set out below.

**Background**

Currently, Transco levies transportation charges on users of its National Transmission System (NTS) and Local Distribution Zones (LDZ) to recover its price control allowed revenue for transmission asset owner (TO) and system operation (SO) activities. The charging methodology for recovering its annual allowed revenue from system users is governed by obligations set out under Transco's GT licence. In particular, Transco is required to ensure that its charges reflect its costs incurred in its transportation business. In addition, in setting charges Transco is required to use best endeavours to set transportation charges such that revenue from such charges does not exceed its allowed revenue in any given year.

Under the current NTS arrangements, transportation charges comprise an entry capacity charge (determined through long-term capacity auctions), exit capacity charges and a throughput based commodity charge.

#### *Transco's reporting obligations*

As set out under Special Condition 28B of Transco's GT licence<sup>1</sup>, when Transco intends to publish any statement or revised or amended statement regarding TO transportation charges, it has to notify the Authority at least 28 days in advance and it has to provide the Authority with the following information:

- written forecast of maximum NTS TO revenue and of its components for the formula year in which the change in charges takes place and for the following year, and
- written estimate of the maximum NTS TO revenue and of its components for the formula year preceding the change in charges.

If Transco does not publish or effect any change in charges within three months of the commencement of a formula year, it has an obligation to provide the Authority with a forecast of the maximum NTS TO revenue and of its components in respect of that formula year. Within three months after the end of each formula year, Transco is also required to send to the Authority a statement showing the NTS TO revenue in respect of that formula year.

Further details of the information to be provided to the Authority in connection with the transportation system revenue restriction are set out in Special Condition 33<sup>2</sup> of Transco's GT Licence.

### **The proposal**

BGT raised modification proposal 0670. Under this modification proposal, on a monthly basis Transco would be required to provide information on the aggregate sums invoiced to shippers in respect of each of the various transportation charge types. This information would be published by means of a monthly budget statement for each price control. It was proposed that the monthly statement would include:

- total billed for the prior month, by transportation charge type (not adjusted for disputes and queries)
- running totals for the (price control) year to date, and
- Transco's reasonable estimate of revenue recovery for each charge type for each month, with aggregate for year to date,

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<sup>1</sup> Special Condition 28B '*Restriction of revenue in respect of the NTS transportation owner activity, LDZ transportation activity and NTS system operation activity*'

<sup>2</sup> Special condition 33: '*Information to be provided to the Authority in connection with the transportation system revenue restriction*'

profiled to reflect Transco's forecast of capacity sales and energy throughput.

BGT provided a suggested format for the monthly statement.

### **Respondents' views**

There were eight responses to this modification proposal. The majority of respondents supported the proposal. In summary,

- respondents offered mixed views on the data that would be published. However, the majority of respondents considered that the data could provide shippers with some useful additional information
- several respondents supporting this modification proposal considered that its implementation would facilitate effective competition between shippers and suppliers. They considered that the published information would enable shippers to assess likely changes in transportation charges, thus mitigating some of the risk in setting customer charges
- some respondents questioned the validity of Transco's statement that the information that would be published may be price sensitive, and
- the respondents who were against the proposal shared BGT's concerns about the frequency of changes in charges, but they did not agree that this proposal was the correct way to address the problem.

### **Transco's views**

Transco did not support this modification proposal. In summary,

- Transco said that publication of the information required would not increase the predictability or stability of charges
- it considered that the information requested seeks to help identify any potential over or under recovery in a formula year, which is only one factor relevant to the determination of the future level of charge rates and the timing of changes to charges
- Transco considered that the provision of forward-looking information could be seen as price sensitive, giving an early indication of turnover for the relevant year
- Transco said that the introduction of long-term system entry capacity auctions and the move to annual monthly system entry capacity auctions could enhance the predictability of T0 revenue and help to bring more stability to NTS charges, and
- Transco did not consider that it would be appropriate to provide information under amended network code terms in addition to existing licence requirements. It said that concerns about volatility in charges would be better addressed through appropriate licence provisions.

## **Ofgem's views**

There are clear advantages in a stable and predictable charging regime. Ofgem notes respondents' concerns about the frequency of changes to charges and the uncertainty of charging levels under the current arrangements. Uncertainty in transportation charges does not facilitate competition between shippers and suppliers. However, the reporting measures outlined in this proposal would not directly address these concerns.

Ofgem agrees with those respondents who expressed concerns that this proposal would not better enable shippers and suppliers to predict likely changes in transportation charges. To a large extent, the proposed monthly statement format would provide retrospective information on a monthly basis which would not necessarily assist shippers and suppliers in predicting changes in charges. It is Ofgem's view that this approach would not better facilitate competition between relevant shippers and suppliers.

Ofgem notes that BGT suggested in its response to the consultation that Transco should be obliged to publish its estimates of revenues together with the other assumptions which have been applied by Transco in setting charges. However, this concept was not part of the modification proposal.

Having carefully considered respondents' views and taking into account all relevant information and experience to date with regard to notification of changes to charges, Ofgem considers that the publication of Transco's revenue against target under the proposed format would not better facilitate competition between shippers and suppliers. However, Ofgem would welcome further proposals from the industry to address concerns relating to the stability and predictability of charging arrangements.

## **Ofgem's decision**

Accordingly, Ofgem has directed Transco not to implement this proposal, as it would not better facilitate the achievement of the relevant objectives as outlined in amended standard condition 9 of Transco's GT licence, for the reasons outlined above.

If you require any further information in relation to this proposal please feel free to contact Tolani Azeez / Matteo Guarnerio on telephone 0207 901 7043 / 7493.

Yours faithfully

**Andrew Walker**

**Director, Transmission Networks Regulation**