

CODE MODIFICATION PROPOSAL No. 0073
"Revision to the Notice Period regarding the implementation of changes to
Transportation Charges"
Version 3.0

Date: 09/02/2006

Proposed Implementation Date: 01/04/2006

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

The Proposer suggests that this proposal proceed directly to consultation and recommend a reduced consultation period of one week. The proposal is straightforward insofar as it proposes a simple change to the relevant Notice Period provided for in the UNC to which Transporters must adhere to in the event that a change to a Transportation Statement is to be implemented. The Proposer believes that the proposal does not require further development.

Nature and Purpose of Proposal (including consequence of non implementation)

The UNC TPD sets down a Notice Period for informing Users of changes to charges pursuant to Standard Special Condition A4(2) of the Transporter's Licence. The Notice Periods contained within the Licence for informing the Authority and the Notice Periods contained within the UNC for informing Users are distinct, but not inconsistent;

- minimum one months notice to be provided to the Authority where the licensee has decided to implement any proposals to change the charges or reserve prices; and
- minimum two months to be provided to Users before the date on which its proposals...are to be implemented

Transportation prices contribute to the total supply costs incurred by suppliers in the business activity of providing gas to customers. These costs are defined by mechanisms outside of suppliers' control, and suppliers seek the recovery of these costs through the charges applied to customers. The current notification methodology carries with it pricing disadvantages.

- i In the most competitive parts of the market the late notification of charges may result in unreasonable losses for suppliers as pass through contracts are both costly to enact and unpopular with customers. Such suppliers have to price keenly based on the information they have at the time and quotations may be necessary well in advance of the contract start date. With the increase in market volatility, customers are negotiating and tendering over a longer and more flexible period than the present two month notice period implies.

- ii Some suppliers may have customers who rarely change their supplier. In these cases the supplier can take a risk on raising prices to cover any possible increases in transportation charges. In such cases the customer ends up paying too much for the monopoly services the supplier is receiving and the supplier achieves extra margin via the recharging process.

In both scenarios transportation charges for monopoly services are adding a risk to the market that the customer will ultimately carry. In addition, there is the risk that the benefits of any charge decreases will not be passed on to those customers who have concluded negotiations well in advance of the contract start date.

Inaccurate transportation charges impact the structure of the competitive market and can distort the final prices paid by customers to the detriment of the market as a whole. An extension to the final notice period would ensure that suppliers have ample time to price contracts effectively, and therefore risk is diminished to the supplier community, and by extension to the customer.

The publication of indicative charges has historically aimed to help suppliers correctly price contracts. However, recently the indicative charges have been significantly different from the final charges and are therefore not proving helpful.

The accuracy of published transportation charges at the time of customer quotations will become increasingly important as DN prices become more disparate over time. Suppliers should be able to price contracts correctly by region, not simply smear the charges between all customers removing the element of cost reflectivity that Ofgem has been keen to maintain.

The proposal is that the current lead time for the notification of price changes should be extended from 2 months to 4 months.

The Proposer recognises that the timing of implementation of this Proposal may have an interaction with the ability of Transporters to amend the level of Transportation charges. In the event that implementation is delayed because immediate implementation would prohibit the establishment of the required four month notice period in the initial Gas Year, then the Proposer would suggest that, should Ofgem direct implementation, as much notice as practical, rather than the two months minimum specified in the UNC, should be given of any changes to the level of transportation charges prior to formal implementation of the Modification Proposal.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Increasing notice periods for price charge changes would better facilitate the achievement of the relevant objective:

- A11.1 (d) The securing of efficient competition between relevant shippers, suppliers and DN operators.

All suppliers would be able to accurately factor into supply contracts the impact of transportation charge changes. Currently, competition is frustrated in the supply market as the effect of transportation charge changes cannot be accurately calculated for **all** supply contracts.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

The extension of the Notice Period may lead to an increase in under/over recovery for the relevant Transporter during the Formula Year.

Code Concerned, sections and paragraphs

UNC - Transportation Principal Document
Section B - System Use and Capacity

Proposer's Representative

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Proposer

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Signature

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