

Draft Modification Report
Provision of Cost Information
Modification Reference Number 0186/0186A
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Proposal 0186

This Proposal seeks to extend the scope of Modification Proposal 698 to provide the detailed information Shippers require about the core elements of Gas Distribution price control as detailed below. This will enable them to forecast more accurately the likely direction and magnitude of changes in transportation revenue over the remaining period of the current Gas Distribution price control, and over the forthcoming years of the next price control. It is the intention of this modification that information provided by the DNs will be used by shippers for their own forecasting purposes and that DNs will not be held accountable for errors or omissions. It is expected however that the DNs will endeavour to provide their best view at all times. Furthermore, it is not the intention of this modification that information provided by the DNs will be challenged by the shippers, although reasonable questioning can be expected.

Table of required information

Revenue element	Annual target (projected forward for 5 years)*	Quarterly reforecast of annual outturn (difference)
Core allowed (Z) ^{\$}		Not applicable
Cost pass through (F) ^{\$}		
Incentive payments and adjustments, shrinkage, exit cap, IAE, MRA etc. ^{\$}		
Inflation rate assumed		Update with latest RPI data
Over/under recovery (K) ^{\$}	Not applicable	
Supplemental information derived from the above		

Final allowed revenue (MOD)	Not applicable	
Final allowed revenue forecast (MOD)	Not applicable	
Forecast collected revenue	Not applicable	
Arithmetical Price change required at next Charging year	Not applicable	
Commentary, definitions and assumptions [#]	To assist in the understanding of the data presented	To assist in the understanding of the data presented

An example spreadsheet in Excel format is attached to clarify the precise format of this report

* It is recognized that the relevant price control ends after five years and there is uncertainty over forecasts beyond that horizon. Any forecasts beyond the relevant price control will be based on assumptions as agreed by both the DNs and Shippers which will take into account any relevant Ofgem publications and latest Price Control proposals.

\$ The terms Z, F and K have the meaning attributed to them in the relevant Price Control review. The 'incentives payment and adjustments' is an aggregate of all incentives and the mains replacement adjustment.

The UNC will be changed to reflect the requirement for a commentary, definitions and assumptions.

It is envisaged that this information will be posted onto the relevant DN websites, but preferably all together on the Joint Office website. A quarterly meeting will be arranged to present this information to interested shippers, as well as other relevant topics, for example the Distribution Charges Methodology Forum (DCMF).

Timetable:

The quarterly actual and updated target information should be made available on the 10th working day of the second calendar month after the end of the month to be reported. Example dates for 2008 are shown below:

15 th January 2008	for data up to the end of November 2007
14 th April 2008	for data up to the end of February 2008
14 th July 2008	for data up to the end of May 2008
14 th October 2008	for data up to the end of August 2008

or the nearest convenient regular meeting schedule, e.g. the 2nd Monday of each quarter month.

With greater transparency of the elements that make up the Price controlled revenue, Shippers and their related Suppliers can better assess the impact of revenue changes upon their business and the pricing of services to their customers. Shippers are currently unable to forecast future revenues with any certainty and cannot accurately assess future changes to transportation charges.

This information has become significantly more important now that there are effectively eight separate price controls for each GDN. The latest indicative charges show an average 26.5% increase in charges versus an inflation figure of 4.5%. These changes also show a wide variation from 2.9% to 64.0% between the different GDNs. Much more detailed information is required to enable Shippers to forecast such large and diverse changes to their costs and consequently provide better informed customer pricing decisions.

Once the new reporting is in place and seen to be working satisfactorily by the shippers, a further Proposal may be raised in order to stop the Modification 698 process.

Proposal 0186A

This Proposal seeks to extend the scope of Modification Proposal 698 to provide the detailed information Shippers require about the core elements of Gas Distribution price control as detailed below. This may help them to forecast the likely direction and magnitude of changes in transportation revenue over the remaining period of the current Gas Distribution price control. It is the intention of this modification that information provided by the DNs will be used by shippers for their own forecasting purposes and that DNs will not be held accountable for errors or omissions. It is expected however that the DNs will endeavour to provide their best view at all times. Furthermore, it is not the intention of this modification that information provided by the DNs will be challenged by the shippers, although reasonable questioning can be expected.

Table of required information

Revenue element	Annual target (projected forward to the end of the price control period)*	Quarterly reforecast of annual outturn (difference)
Core allowed (Z) ^{\$}		Not applicable
Cost pass through (F) ^{\$}		
Incentive payments and adjustments, shrinkage, exit cap, IAE, MRA		

etc. ^{\$}		
Inflation rate assumed		Update with latest RPI data
Over/under recovery (K) ^{\$}	Not applicable	
Supplemental information derived from the above		
Final allowed revenue (MOD)	Not applicable	
Final allowed revenue forecast (MOD)	Not applicable	
Forecast collected revenue	Not applicable	
Arithmetical Price change required at next Charging year	Not applicable	
Commentary, definitions and assumptions [#]	To assist in the understanding of the data presented	To assist in the understanding of the data presented

An example spreadsheet in Excel format is attached to clarify the precise format of this report

* Each price control period normally lasts for five years and it is not possible to forecast beyond the end of the existing price control period. Any projections beyond the existing price control could be misleading and not in keeping with the purpose of this Modification proposal. DNs will however discuss possible outcomes of the next price control period with Shippers at the DCMF. Once Ofgem has published specific proposals for the following price control period the DNs will start publication in a Mod186A format for that price control period.

^{\$} The terms Z, F and K have the meaning attributed to them in the relevant Price Control review. The 'incentives payment and adjustments' is an aggregate of all incentives and the mains replacement adjustment.

[#] The UNC will be changed to reflect the requirement for a commentary, definitions and assumptions.

This information will be posted on the Joint Office website. A quarterly meeting will be arranged to present this information to interested shippers, as well as other relevant topics, for example the Distribution Charges Methodology Forum (DCMF).

Timetable: The quarterly actual and updated target information should be made available on the 10th working day of the second calendar month after the end of the month to be reported. Example dates for 2008 are shown below:

15th January 2008 for data up to the end of November 2007
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14th October 2008 for data up to the end of August 2008

or the nearest convenient regular meeting schedule, e.g. the 2nd Monday of each quarter month.

With greater transparency of the elements that make up the Price controlled revenue, Shippers and their related Suppliers can better assess the impact of revenue changes upon their business and the pricing of services to their customers.

This information has become significantly more important now that there are eight GDNs. The latest indicative charges show an average 26.5% increase in charges versus an inflation figure of 4.5%. These changes also show a wide variation from 2.9% to 64.0% between the different GDNs. Much more detailed information is required to enable Shippers to forecast such large and diverse changes to their costs and consequently provide better informed customer pricing decisions.

Once the new reporting is in place and seen to be working satisfactorily by the shippers, a further Proposal should be raised in order to stop the Modification 698 process.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

The charging methodology for GDNs to recover their allowed revenue from system users is governed by obligations set out under standard condition 4A of the Transporter's GT licence. Both Modifications will allow Shippers to forecast changes to these charges, which is not possible currently.

Under standard condition 9 of their GT licence, Transporters have an obligation to establish economic transportation charging arrangements which facilitate the efficient and operation of their pipeline system, secure effective competition between relevant shippers and suppliers and which secure domestic customer security standards. Transporters are also required to ensure that their charges reflect the costs that they incur in their transportation business. In setting charges, Transporters are required to use best endeavours to set transportation charges such that the total revenue from such charges does not exceed their allowed revenue in any given year.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

- (i) *the combined pipe-line system, and/ or*
- (ii) *the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) *between relevant shippers;*
- (ii) *between relevant suppliers; and/or*
- (iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation would provide Shippers with information that could be used to more accurately forecast changes to transportation charges. By making forecasts of future charges more accurate, Shippers and Suppliers would face less uncertainty and risk. Reducing risk and uncertainty facilitates the securing of effective competition between relevant Shippers and between relevant Suppliers.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to facilitate the achievement of this objective.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

There are no implications on security of supply, operation of the Total System or industry fragmentation

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

No such implications have been identified.

b) Development and capital cost and operating cost implications:

Some development may be required, but whilst the Proposer is unable to provide an estimate he believes that these costs should be minimal as the Proposer understands that this information is already available to Transporters.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery is required

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences have been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Some development may be required, but the Proposer believes that that this information is already available to Transporters.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

No such implications have been identified.

Consequence for the level of contractual risk of Users

No such consequences have been identified.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such implications have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Provides additional information to the market which can help Shippers make more accurate predictions of the likely path of transportation charges

Disadvantages

None identified

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required for such.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

As soon as possible

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction] from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Joint Office of Gas Transporters
0186/0186A: "Provision of Cost Information"

Example Spreadsheets

	20078	20089	200910	201011	201112	201213
Core Allowed	211	212	212	212	212	212
Cost Pass Through	28	28	28	28	28	28
Incentives	13	13	13	13	13	13
Final Allowed Rev per PCR	252.0	253.0	263.2	266.0	267.3	262.6
Inflation Assumed	1.05	1.08	1.11	1.15	1.18	1.22
Final Allowed Rev per PCR at prices of year	264.6	273.6	293.2	305.2	315.9	319.6
Cost Pass through Movements	1.0	0.0	0.0	0.0	0.0	0.0
Incentives Movement	1.0	0.0	0.0	0.0	0.0	0.0
K Movement	0.0	0.4	0.0	0.0	0.0	0.0
Final Allowed Revenue Latest Forecast	266.6	274.0	293.2	305.2	315.9	319.6
% of previous year	100.7%	102.8%	107.0%	104.1%	103.5%	101.2%
Forecast Collected Revenue	267.0	274.0	293.2	305.2	315.9	319.6
Forecast Under / Over Recovery (K)	-0.4	0.0	0.0	0.0	0.0	0.0
Arithmetical October Price level change needed for Collected to = Allowed	26%	-9%	5%	-2%	2%	0%

Commentaries