

CODE MODIFICATION PROPOSAL No 0186
"Provision of Cost Information"
Version 3.0

Date: 17/01/2008

Proposed Implementation Date: As soon as implementation is directed by Ofgem.

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Non urgent

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This Proposal is the result of lengthy discussion between shippers and DN's which has resulted in an agreed solution for information provision, details of which are shown below. It is supplementary to and complements Code Review Proposal 0162 which continues to be discussed in a review group. This group will continue to meet in order to discuss improvements to information provision and the governance arrangements for this Modification, should it be approved. Since this Modification Proposal has been subject to lengthy discussion, it is proposed that it progresses straight

to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

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. This modification 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.

3 The implications of implementing this 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 this Modification Proposal, including:

a) The implications for operation of the System:

No such implications have been identified.

b) The 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) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No cost recovery is required

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequence is anticipated.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

No such requirement has been identified.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

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

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

b) The development and capital cost and operating cost implications

No such implications have been identified.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequences have been identified.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such implications have been identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

No written representations have been received.

12 Detail of all other representations received and considered by the Proposer

None

13 Any other matter the Proposer considers needs to be addressed

None

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

As soon as possible

15 Comments on Suggested Text

None

16 Suggested Text

None

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) New Section V 5.13 or subsection of V5.12

Proposer's Representative

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

Example Spreadsheet

	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