

Mod 0636 Initial Representations – Formula-related Issues

Issue	Proposed Stakeholder Solution	Proposer comment	Pros & Cons
GCD11 Formula not subject to full stakeholder review	Full review of GCD11 Formula	<p>OCC formula not updated since 1997 – sites availing of OCC have dramatically increased. For the formula to remain credible it must be updated.</p> <p>Believes NG have used the best available data.</p> <p>As part of the review for Mod 621 stakeholders have been asked to provide cost data and views on cost inputs for the OCC.</p> <p>Those that have been provided to date are consistent with GCD11 outcomes.</p>	<p>Greater accuracy may prevent avoidable by-pass.</p> <p>Charges could be higher or lower.</p> <p>Stakeholders may require confidentiality of costs which makes progress difficult.</p> <p>Delay prolongs cross subsidy.</p>
<p>Inclusion of Larger Pipeline Sizes</p> <p>Inclusion of smaller Pipeline sizes</p>	<p>Reveal NG Costs for large pipe sizes</p> <p>Exclude large pipe sizes</p> <p>Exclude small pipe sizes</p>	<p>Max flow in 1998 formula was 15 mcmd and max distance was 50 km. Larger pipes necessary to cater for unlimited distance and 60 mcmd flows. Small pipes necessary for shorter distances and lower flows.</p> <p>Data set used in the regression analysis should be consistent with range the formula is applicable to.</p>	<p>Risk that restrictions to pipe size and distance may be required.</p>
Assumptions underlying allocation of pipeline sizes to flow/distance		<p>Believes NG have used standard company planning and design specifications.</p>	
Use of Steel Index		<p>Major cost component of pipelines is steel which has its own index.</p>	
Application of RPI		<p>Allowed revenues increase with indices derived from price control . Standard commodity rates increase (assuming stable flows). Shortfalls in capacity revenues are also recovered by standard commodity charges</p>	
Cost of Building Pipeline	<p>Consider spur pipelines.</p> <p>1998 charge considered too high</p>	<p>Bypass pipelines are likely to be more complex than spur pipelines.</p> <p>If 1998 charge too high would have expected to see more by-pass pipelines being built to date.</p>	
Breakdown of costs	<p>Breakdown into material and labour</p>	<p>see above.</p>	

Mod 0636 Initial Representations – Other Issues

Issue	Proposed Stakeholder Solution	Proposer comment	Pros & Cons
<p>Contractual arrangements</p> <p>Interim changes</p>	<p>Consider contracts in timing of change</p> <p>Consider impacts on investment</p>	<p>Standard commodity charges are changed in April & October.</p> <p>Assume contracts and specific investment projects will be confidential. Suggest details are shared with Ofgem to collate.</p>	
<p>Determination of cross-subsidy</p>		<p>Current estimate is simple comparison of OCC revenues with revenues from OCC.</p> <p>If true costs of pipe-building are known then a more accurate value for the cross subsidy can be determined.</p>	<p>Current OCC rates are significantly below the costs of building the required pipeline.</p>
<p>Raised contribution towards SO charges</p>		<p>Yes – the revenue recovered via the OCC will continue to contribute to the SO allowed revenues.</p>	
<p>Interaction with Mod 621</p>		<p>NG have stated 621 will update whatever code is in place at the time.</p>	
<p>End User impact</p>	<p>Cost benefit analysis</p>	<p>NG are providing some analysis on new rates and impacts.</p>	
<p>Distributional effects on charges.</p> <p>Impact analysis</p>			