

# 0557:

## Notice Period for Changes to Transportation Charges resulting from Uncertain costs allowed expenditure - financial adjustments.

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

A modification to introduce a notice period for changes to Transportation Charges related to Uncertain costs allowed expenditure - financial adjustments.



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact:  
None



Medium Impact:  
Shippers



Low Impact:  
Transporters

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<b>About this document:</b>		 <b>01926 653541</b>
This modification will be presented by the proposer to the panel on 17 September 2015.		Systems Provider: <b>n/a</b>
The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.		
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	24 November 2015	Additional contacts:
Workgroup Report presented to Panel	21 January 2016	
Draft Modification Report issued for consultation	21 January 2016	
Consultation Close-out for representations	11 February 2015	
Final Modification Report published for Panel	12 February 2015	
UNC Modification Panel decision	18 February 2015	

# 1 Summary

## Is this a Self-Governance Modification?

This modification is not considered self-governance as it is likely to have a material impact upon UNC Governance and potentially a material impact on competition between shippers.

## Is this a Fast Track Self-Governance Modification?

As the modification is not considered self-governance, then it is not suitable for fast track self-governance processes.

## Why Change?

UNC Modification 0186 ('Mod 186') brought in new requirements for GDNs to provide the industry with a quarterly view of detailed information about the core elements of Gas Distribution price control to enable Shippers to more accurately forecast the likely direction and magnitude of changes in transportation revenue. Where Shippers face the risk of uncertain transportation charges they will by necessity include risk premiums within fixed price contracts. With access to better information, those risk premiums may reduce; however, without a reasonable notice period for the adjustments to future transportation charges they are more difficult to incorporate into tariffs and may lead to costs not being fully recovered from those customers who attract the charges. The ability of Shippers to vary the tariffs to incorporate the additional charges may differ by market sector and may result in a discriminatory effect on different market participants.

## Solution

The intention of this modification proposal is to extend the notice period for Uncertain Costs Allowed Expenditure Financial Adjustments so that they do not impact allowed revenues in the formula year that immediately follows the Authority Decision to permit the adjustment.

## Relevant Objectives

Relevant Charging Objective c) competition between shippers is furthered by this proposal since the ability to better forecast costs reduces risk premiums in fixed price contracts leading to lower prices to consumers.

## Implementation

We would like to see this modification implemented before notice of new charge rates for the coming formula year are notified, so that appropriate notice can be agreed for Uncertain Costs inclusion

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact on any other change project is anticipated.

# 2 Why Change?

UNC Modification 0186 brought in new requirements for GDNs to provide shippers with a quarterly view of detailed information about the core elements of Gas Distribution price control to enable them to more accurately forecast the likely direction and magnitude of changes in transportation revenue over the remaining period of the current Gas Distribution price control, as well as the forthcoming years of the next price control.

Suppliers rely on these forecasts to help them price future revenue changes into their contracts and tariffs. Where GDNs fail or are unable to include reasonable forecasts in their Mod 186 reports, this

introduces an element of unpredictability into transportation revenues. This can be a particularly large risk in relation to Uncertain Costs which are factored into transportation revenues through reopener mechanisms – the GDNs are able use these Uncertain Costs reopener mechanisms to seek large adjustments to revenues at short notice. This has been clearly demonstrated in the recent EPSS reopener application window.

Large adjustments to transportation revenues at short notice are undesirable for a number of reasons. Where the adjustments result in unexpected increases to transportation revenues, this can leave Suppliers financially exposed. Where Suppliers face the risk of uncertain transportation charges they will by necessity include risk premiums within fixed price contracts. Where the adjustments result in unexpected decreases to transportation revenues, Suppliers may not be able to pass on these savings to those consumers on fixed price contracts,

### 3 Solution

The intention of this modification proposal is to extend the notice period for Uncertain Costs Allowed Expenditure Financial Adjustments so that they do not impact allowed revenues in the formula year that immediately follows the Authority Decision to permit the adjustment.

UNC TPD Y requires an additional clause to facilitate advanced notice of charge changes.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	N/a
Proposed charge(s) for application of User Pays charges to Shippers.	N/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	As no new activities are created by the modification, so an ACS should not be required.

### 4 Relevant Objectives

Impact of the modification on the Relevant Charging Methodology Objectives:

Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation	None

<p>arrangements are established by auction, either:</p> <ul style="list-style-type: none"> <li>(i) no reserve price is applied, or</li> <li>(ii) that reserve price is set at a level - <ul style="list-style-type: none"> <li>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</li> <li>(II) best calculated to promote competition between gas suppliers and between gas shippers;</li> </ul> </li> </ul>	
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

By their nature the Uncertain Costs Allowed Expenditure adjustments are allowed to reflect the need to recover additional transportation revenue in defined circumstances, over and above the amounts that were predicted at the beginning of the price control process. The amounts that are likely to be sought in such applications are not immaterial and as such need to be recovered from customers via their energy tariffs or, where contracts permit – through pass through arrangements. The Mod 186 information allows GDNs to provide regular information to shippers (and by extension certain types of consumer) to allow them to monitor revenue performance by the GDNs and assist them in predicting future likely transportation charge rates. Where applications to re-open price controls for Uncertain Expenditure are made the ability of the shippers/customers to prepare for the increased prices is more challenging and may lead to different approaches and abilities of gas shippers and suppliers to reflect the changes into tariffs and contracts which may in turn affect competition.

Clarity and timely provision of information in respect of charging information allows Shippers and Suppliers to more accurately price services to customers, furthering Relevant Charging Objective c) competition between shippers. By having a lead time for changes that can be translated into changes to customer tariffs ensures that costs can be accurately targeted rather than being absorbed inappropriately.

## 5 Implementation

We would like to see this modification implemented before notice of new charge rates for the coming formula year are notified, so that appropriate notice can be agreed for Uncertain Costs inclusion.

## 6 Impacts

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact on any other change project is anticipated.

## 7 Legal Text

Legal Text and Commentary will be provided by the transporters.

## 8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and should
- Progress to Workgroup assessment.