

Representation For. 0073

"Revision to the Notice Period regarding the implementation of changes to Transportation Charges"

Version 1.0

Date of Communication: 02/03/2006
External Contact: Beverley Grubb(Scotia Gas Networks)
Slant: Against
Strictly Confidential: No

Abstract

Thank you for providing SGN with the opportunity to comment on the above proposal to change the current notice period for transportation charge changes of two months to four months.

Scotia Gas Networks (SGN) does not support the proposal for the following reasons:

1. Reduced Accuracy of Price Changes:

Under their Licences the DNs are required to use reasonable endeavours to only change charges once per year, on 1 October. Under this proposal notice would have to be given on or before 1 June. Currently forecasts of transportation volumes for the networks are produced in the middle of May each year. This is the earliest point at which we believe forecasts can be produced, taking into account actual performance over the whole of the previous formula year, particularly the crucial winter period. If we were required to give firm notice of changes in charges on 1 June it would not be possible to make use of these forecasts. This would mean that the proposed changes in charges would be less accurate in terms of making the appropriate adjustments, equating collected revenue and allowed revenue i.e. under or over recovery.

We note Shippers concerns that indicative charges often vary from actual charges. One of the major reasons for the difference between indicative charges published on 1 May 2005 and the final charges published on 1 August 2005 is that the May forecasts are not available when the indicative charges are published. In some cases the new volume forecasts can be significantly different which in turn leads to revisions in the proposed changes in the charges.

There are also other factors that can have an impact on final charges e.g. Mains Replacement data detailing actual activity and costs over the entire formula year is not available until some time after the end of the formula year. Figures have to be submitted to Ofgem by the end of July, this is just in time to be taken into account when setting final charges to be published on 1 August. Final figures can vary from earlier estimates and can have an impact on price changes. If the notice period becomes four months instead of two, it will not be possible to take the final figures into account, creating another source of uncertainty which would have to be corrected in future pricing periods.

2. Increased Volatility of Charges

It has been argued in the Draft Modification Report that late notification of charges is adding risk to the market that the customer has to bear. It is suggested that changes proposed would allow "ample time to price contracts". Whilst proposed changes may provide more time to price contracts, SGN believes the reduced accuracy of the price changes could be detrimental and could result in greater levels of under

and over-recovery at the end of each formula year. Further consideration may need to be given to the requirement to only change charges on 1 October if changes to notice periods resulted in larger percentage changes in charges from year to year. Larger changes in charges can lead to a "see-saw" effect, where a large increase one year to recover an under-recovery has to be followed by an equally large reduction the following year to avoid over-recovery. SGN believes that this increased uncertainty and volatility could damage rather than promote competition and result in further risk for shippers and customers.

3. Conclusion

SGN has some sympathy with the proposal and what it is trying to achieve, however we believe that any advantages that the four months notice might bring would be outweighed by the disadvantages of the greater inaccuracy and volatility in transportation charges. At a time when wholesale gas prices are uncertain and volatile, this would not be desirable. We do not believe this proposal addresses Shipper's concerns. We do not believe it would better facilitate the relevant objectives. In particular it is not in the interest of competition.

I hope these comments are helpful.

Yours sincerely

Beverley Grubb
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