

**Draft Modification Report**  
**Provision of information relating to the SO commodity charge**  
**Modification Reference Number 0576**

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

"The Proposal is to enable shippers and customers to manage the risks associated with volatility in the level of the SO commodity charge, Transco should be obliged to publish sufficient information to allow shippers and customers to forecast the level of charges based on the outturn costs relative to forecast costs used when setting the SO commodity charge.

Transco sets the SO commodity charge at the start of the charging year by as the sum of all of the target level of costs under its SO incentive schemes. It is AEP's understanding that the current SO commodity charge is calculated by first summing the target level of costs for: SO internal costs; SO system balancing incentives; and the NTS exit capacity incentive. The target levels of costs are set out in Ofgem's December 2001 document "Transco NTS SO Incentives 2002-7: Final Proposals" document. Transco then subtracts its estimate of revenue it will receive over the year from users paying the SO optional commodity tariff and the St Fergus compression charge to determine target cost recovery.

This target level of cost recovery is then divided by Transco's forecast of system throughput for the year to determine the SO commodity charge.

Transco should therefore be obliged to publish:

- Transco's forecast of annual system throughput and monthly system throughput for the next charging year at the start of each charging year;
- actual system throughput on a weekly basis;
- Transco's forecast of annual and monthly target costs under the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) at the start of the charging year;
- the sum of outturn costs under the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) on a weekly basis; and
- disaggregated outturn costs for each of the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) on a quarterly basis.

Transco should be required to publish all of the information listed at the frequencies indicated on the Transco Information Exchange at <http://info.transco.uk.com/>"

## **2. Transco's Opinion**

Transco does not support implementation of this Modification Proposal and does not believe that publishing the requested information would significantly increase Users' ability to accurately predict the path of the SO Commodity Charge. In addition, Transco would emphasise that the majority of the requested information is not available.

The Proposal does not accurately describe either Transco's obligations nor its approach to setting the SO Commodity Charge. Transco is aware of concerns about the potential volatility of transportation charges in general and the SO Commodity Charge in particular. Transco does not set charges for a charging year but, consistent with its Licence obligations, seeks to make adjustments to charges only when it is clear that to do so otherwise would lead to collected revenue exceeding the maximum allowed revenue calculated in accordance with the relevant price control formula. As would be expected, Transco also sets charges with a view to collecting the revenue allowed by each price control formula. But when doing this, Transco considers more than one year in the interests of achieving price stability within the obligations set out in its Gas Transporters Licence.

Against this background Transco would point out that, in respect of the requested information:

- Throughput information is already published on a daily basis;
- Targets under the relevant SO incentive schemes were set by Ofgem on the basis of a formula year, and a monthly split of the target is not available; and
- The sum of outturn costs under the relevant SO incentive schemes are not produced on a weekly or quarterly basis and hence are not available. For example, SO internal costs include recharges from a number of Transco departments, and these are not available on a weekly basis. Exit capacity costs are also a significant part of the requested costs which, rather than accruing on a daily basis, are calculated on the basis of a snapshot at one point in time.

## **3. Extent to which the proposed modification would better facilitate the relevant objectives**

The proposer suggests that implementing this Modification Proposal will better facilitate competition between shippers and suppliers.

## **4. The implications for Transco of implementing the Modification Proposal , including a) implications for the operation of the System:**

No direct implications are anticipated.

### **b) development and capital cost and operating cost implications:**

Changes to Transco's existing systems would be required to facilitate the provision of this information resulting in estimated development costs of the order of £100k. Some additional operating costs due directly to the information release would also be expected.

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

Any additional System Operator costs incurred as a result of implementing this proposal would be accounted for under the proposed internal cost incentive scheme, as set out in Ofgem's final proposals for the System Operator incentives, and hence be largely recovered from Users.

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

The proposal is not considered to have any consequences in respect of price regulation.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

No such consequences are anticipated.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

Changes to Transco systems are required to facilitate the provision of this information.

**7. The implications of implementing the Modification Proposal for Users**

Users would be provided with information that might allow them to better forecast changes to the level of the SO Commodity charge.

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

Transco believes that there would be no direct effect on the above parties.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

No changes to contractual relationships are anticipated.

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

**Advantages:**

- The provision of information might improve the ability of Users to predict more accurately SO commodity charge levels.

**Disadvantages**

- Increased administrative complexity and operating costs for Transco
- Much of the requested information is not available as specified in the Modification Proposal and hence the published information could be regarded as misleading.

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

Representations are now invited.

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Transco does not believe that implementation of this Modification Proposal would affect compliance with safety or other legislation.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Not applicable.

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

A programme of works would need to be developed should the Modification Proposal be implemented.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Transco does not propose implementation.

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco's view is that the proposal should not be implemented.

**17. Text**

***Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report***

Signed for and on behalf of Transco.

Signature:

**Tim Davis**  
**Head of Regulation NT&T**

Date: