

**Draft Modification Report**  
**Requirement for Publication of Transco's Revenue Flows against target**  
**Modification Reference Number 0670**  
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

On a monthly basis Transco would be required to provide information on the aggregate sums invoiced to Shippers in respect of each of the various Transportation charge types. This information would be published by means of a monthly budget statement for each Price Control (NTS TO, NTS SO & LDZ (separated from 1 April 2004)). Information included in the monthly statement would be:-

- Total billed for the prior month, by transportation charge type. NB These should be total billed figures not adjusted for disputes and queries.
- Running total for the (price control) year to date.
- Transco's reasonable estimate of revenue recovery for each charge type for each month, with aggregate for year to date, profiled to reflect Transco's forecast of capacity sales and energy throughput.

Information should be published no later than [Xth] of each month following completion of Transco's monthly invoice production cycle (not invoice due dates).

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

The Proposer has requested detailed financial information from Transco in order to give Shippers and Suppliers an early indication of under or over recoveries which could lead to changes to transportation charges or to a "k factor" being applied between years of a Price Control. Transco believes that the provision of such information to Shippers is neither appropriate nor helpful.

Transco's interpretation of the Proposal is that the requested financial information is on a retrospective basis and hence that Transco would not be required to provide forecasts of its income were this Proposal to be implemented. Transco would emphasise, however, that it believes the provision of forward-looking information could be seen as being price-sensitive, as it would provide an early indication of income for the relevant year.

At present, Transco's Gas Transporter Licence contains provisions governing its level of allowed revenue, the process by which it reports on performance against its revenue controls, and the process to be followed when amending the level of transportation charges. This is consistent with the regulatory frameworks of other UK network operators. This system appropriately focuses oversight of relevant revenue issues onto the regulatory authority, and Transco does not believe it would be appropriate to overlay an alternative process via modification of the Network Code.

Contrary to the Proposer's suggestion, Transco does not believe that publication of the information requested would decrease the uncertainties associated with the setting of charges to customers. The two

key reasons for this are firstly that Transco would expect any impact on the setting of charges to customers to be dependent on expectations of total transportation charges faced – not the unit rate of individual charge types. Secondly, the information requested seeks to help identify any potential over- or under-recovery in a financial year, which is only one factor relevant to the determination of the future level of charge rates and the timing of any changes to these rates.

Transco understands Shippers' concerns over the volatility and predictability of transportation charges. Transportation charge rates have been particularly volatile in recent years, the key drivers for which have been the separation of the transmission and distribution price controls (including the separation of transmission into TO and SO price controls), and the introduction of NTS entry capacity auctions. The combination of these factors has given Transco very few degrees of freedom to ensure recovery of revenue in line with its price control allowances, and particularly to avoid recovering more than the maximum allowed revenue. Furthermore, the timing of the auctions and the inevitable uncertainty associated with their outcomes have materially affected the predictability of actual revenue from NTS entry charges. However, offsetting changes to other charge types have stabilised the level of transportation charges faced by Shippers rather than introducing volatility. That is, the unit rates vary in order to keep the total collected stable, and within the limits allowed by Transco's price controls.

On the transmission side, it has been argued that the introduction of long term system entry capacity auctions and the move to annual monthly system entry capacity (AMSEC) auctions will enhance the predictability of actual NTS TO revenue. In turn, this should help to bring more stability to NTS charge rates. Furthermore, Transco proposes to introduce an NTS TO commodity charge, which would allow NTS exit capacity charges to be maintained at levels consistent with the recovery of 50% of allowed NTS TO revenue. Transco will shortly be publishing its Consultation Report for PC77, in which the NTS TO commodity charge was proposed. In this report, Transco will set out the circumstances under which it would expect to use the charge, which it is hoped will provide greater certainty and clarity for Shippers regarding the potential level of the prospective TO commodity charge.

Transco believes that remaining concerns about volatility in charges, covering both distribution and transmission charges, are best addressed through appropriate Licence provisions rather than through the provision of information such as that requested in this Modification Proposal. In this respect, Transco notes Ofgem's proposals in respect of the Electricity Distribution Network Operators which potentially provide a precedent for the gas networks in terms of the treatment of under- and over-recoveries and the appropriate notice period to be given when changes to transportation charge levels are proposed.

Transco believes that the developments outlined above are significant in the context of the Proposer's objective of decreasing the risk associated with the setting of charges to customers. This is in contrast to the proposed information provision that is the subject of this Modification Proposal, which Transco does not believe would help Shippers in the way suggested.

Transco would welcome views on the implications which implementing this Modification Proposal might have for the electricity market. While no impact on the physical interaction of energy transmission systems would be anticipated, implementation of this Proposal could be seen as setting a precedent for other Network Operators who could also be asked to publish financial information that has previously only been supplied to the Authority.

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

The Proposer suggests that implementing this Modification Proposal would better facilitate competition between Shippers and Suppliers. It is unclear to Transco how the provision of the requested information would achieve this, and respondents' views on this would be welcome.

**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. 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 costs incurred as result of implementing this Proposal would be accounted for under Transco's operating costs and allocated between the LDZ and NTS TO price controls, and the NTS SO internal costs incentive scheme. Costs attributable to the SO incentive scheme would be reflected in subsequent levels of the SO Commodity Charge, while other costs would be reflected in revenue allowances when the TO price controls are next modified.

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

Implementation of this Proposal would not be expected to impact 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**

It is not anticipated that there will be a change to the level of contractual risk to Transco as a consequence of this Proposal.

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

Changes to Transco systems would be required to facilitate the provision of information, the precise details of which are unclear in the absence of definitions of the information items being sought. Users may also wish to develop systems to receive the published data.

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

Users would have an indication of Transco's collected revenues against each charge type.

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

Transco would welcome views from the above parties on any anticipated implications.

**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 Proposer believes the provision of this information would decrease the risk associated with the setting of charges to customers and support effective competition between Suppliers.

**Disadvantages**

- Transco believes the provision of this information may be misleading as it does not represent all the elements that impact upon transportation charges.
- Increased administrative complexity and operating costs for Transco.

**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 sought.

**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 recommend implementation of this Proposal.

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

Transco recommends rejection of this Proposal for the reasons outlined above.

**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:

**Mike Calviou**  
**Commercial Frameworks Manager**  
**NT & T**

Date: