Draft Modification Report
Requirement for Publication of Transco's Billed Charges against target
Modification Reference Number 0698

Version 2.0

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 proposer states:-

"That Transco be required to produce a monthly report detailing the actual billed charges against the anticipated annual amount of revenue allowed within their Price Control.

The billed charges would in this case mean the aggregated sum of each charge type as invoiced across all Users, without regard for any disputed items. This simple arithmetic summation would be available upon completion of the standard monthly invoicing cycle. The figures for the current month would be populated in each report immediately after completion of the standard invoicing cycle. The report would show the aggregate billed figure of each charge for each month.

The anticipated annual amount would be shown broken into monthly figures, each of which would be profiled in order to show Transco's best estimate of anticipated revenue for that charge type taking into account the factors which would determine the proportion of annual revenue for that month. Transco would also be required to publish the assumptions which underpin the preparation of these estimates. The figures for the entire year would be populated in each report, showing each monthly figure. It is anticipated that this information is currently available internally to Transco and prepared for their existing processes of monitoring revenue. Therefore we do not believe that this Proposal involves any significant administrative or financial burden other than the mechanism adopted for publication, either by means of a spreadsheet distributed to Users or more widely via Transco's Information Exchange web-site.
NWC legal drafting would be need to reflect that the proposal would automatically include any new charges introduced and to update the format of the report as necessary.

The proposed format of the report is as detailed in the attached but would include all charge types and be shown for each Price Control. This would require the addition of new reporting lines in the event that new charge types are introduced and further sub-division of the reports to reflect any aggregation or dis-aggregation of price controls.

In the event of the sale of one or more Distribution Networks from Transco's ownership, it is anticipated that any obligation to report on revenue flows from that network/price control would pass from Transco to the new owner by incorporation within a Unified Network Code.

It is proposed that the report would be related to each "Formula Year" (April - March). As regards this current year, we would propose that reporting would commence as soon as possible but certainly in advance of the periods of high and variable consumption over the winter months. We would expect that the prior months of this Formula Year would be included within the first report published.

It is proposed that the timing of the report would be immediately following issue of invoices to Users and scheduled for the end of the third week of each month."

2. Transco's Opinion

The proposer has requested that Transco publish a monthly report detailing financial information in order that Shippers can predict the impact of revenue recovered upon potential changes in charges.

Transco does not believe that the information requested would provide a reliable indication of future charge changes as it relates to only one of several factors that impact upon changes in charges.

Transco continues to believe that the most reliable indicator of future changes in charges is the notice provided by Transco. As the proposer correctly highlights, collected revenue is most volatile during the periods of high and variable consumption over the Winter months. Information provided ahead of the winter period would have little value in predicting future changes in charges. Transco already has an obligation to use reasonable endeavours to inform Ofgem of any proposed changes to charges 150 days before the proposed date of implementation, and it shares this information with Shippers. For changes to charges that become effective at the start of the Formula Year, this notice is served at the end of October in the preceding year. Transco believes that the proposer's requirements would be best met by Transco's compliance with this Licence condition.

With respect to the frequency of changes in the charges, Transco believes that the long term system entry capacity auctions and the move to a single annual MSEC auction should help to bring more stability to transmission charges. The proposed introduction of a TO Commodity Charge will reduce the need to vary exit charges within year to cater for circumstances where actual recovered revenue is forecast to be less than allowed revenue, primarily as a result of under-recovery in the auctions. The existing PC65 mechanism already caters for circumstances where revenue recovered through the auctions results in a forecast actual revenue exceeding allowed revenue.

Distribution charges were increased in October 2003 to recover a large under-recovery which accumulated relatively quickly due to a period of unexpectedly warm weather. The charges had been unchanged for the previous 18 months. In April 2004 the charges were reduced to a level which Transco hopes can be sustained for a minimum of a year and hopefully significantly longer.

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

It is unclear to Transco how the provision of the requested information would better facilitate the relevant objectives, 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 and Network 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 implementing 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 this information. 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 provide Shippers, Suppliers and End-Users useful information regarding the trends of Transco's income and provide more visibility of the potential for changes to the transportation charges with consequential implications for customer charging. They also believe that greater transparency of the processes would provide shippers and suppliers with better information with which to assess the impact of pricing changes upon their business and the pricing of services to their customers.

Disadvantages:

Transco believes the provision of this information may be misleading as it does not represent all the elements that impact upon transportation charges. There will also be some 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 ModificationProposal

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)

DMR issued	11 June 2004
Closeout for Representations	02 July 2004
FMR submitted to Ofgem	23 July 2004
Ofgem decision	

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:

Simon Griew
Charging and Forecasting Manager
NT & T

Date: