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

Version 3.0

This 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

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 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 because many factors may have to be taken into account in a decision to change charges. For example, 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 continues to believe that the most reliable indicator of future changes in charges is the notice provided by Transco. Transco 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 most reliably met by Transco's continued compliance with this "reasonable endeavours" 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.

The implementation of this Modification Proposal may have implications for the electricity market. Whilst 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.

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

No implications have been identified.

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, particularly in the context of the separation of the distribution price control.

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

Transco received a total of seven responses to this Modification Proposal :

British Gas Trading Ltd (BGT)

Powergen UK plc (PG)
Total Gas & Power Ltd (TGP)
EDF Energy (EDF)
Shell Gas Direct (SGD)
Scottish & Southern Energy (SSE)
Npower (NP)

The first five names listed above supported implementation of the Proposal, and the last two opposed the Proposal. In the opinion of the Proposer and Supporters, this Proposal is an improvement on NWC Modification Proposal 0670 in that it gives a fuller picture by covering actuals and forecasts for all months of the current formula year. However, Transco believes that the data request is inappropriate and will not achieve the result the Proposer seeks to achieve. However, Transco is content to take the debate forward, for example, through the production of a Pricing Discussion paper (see below).

Appropriateness of the data requested

The Proposer has requested a monthly report from Transco (and new DNOs should they take on any networks) showing actual and forecast revenues by major charge type under the respective price controls for every month of the current formula year, and summed for the whole year. The data would be populated by invoiced data and the report scheduled "for the end of the third week of each month". The Proposer has suggested that this information request will not result in the "programme of work" that Transco suggested in response to Modification Proposal 0670. With regard to the forecast data, "Transco would also be required to publish the assumptions which underpin the preparation of these estimates."

Transco's Response

Transco believes that the data requested is still inappropriate and potentially misleading. Whilst it is correct that Transco does consider this type of data when monitoring revenues against formula allowed levels, it is only of a very limited nature and needs combining with other data. Shippers and Suppliers would not be able to accurately interpret trends in the recovery situation and potential future price changes from the limited data requested. To meet the information request from the Proposer, according to one respondent (SSE) "would increase the amount of information available" but "it is difficult to see how this could be interpreted or used in any meaningful way. We are concerned that this proposal could increase uncertainty, as parties would be left to try and anticipate how Transco would be likely to respond." One respondent (NP), commenting on the information request, stated that while it might be useful as a pointer to the "direction of a possible price movement", "we question how useful it might be in predicting the extent and timing of a price change."

From 2005/06 onwards, pricing will be done on an individual network basis. This means the information would have to be provided on a network basis. This will increase complexity and increase the difficulty of making useful judgements about the likelihood of price changes from the information requested.

There is potentially a significant increase in workload for Transco's NTS and LDZ pricing teams through development of the proposed report and checking the report

that xoserve will have to produce. Also, the report would inevitably lead to a number of questions on a monthly basis.

The Proposer has asked for assumptions behind the forecasts. Transco does not believe it would be appropriate to provide assumptions as it is not clear how they would be helpful and they may affect other business areas which Transco is entitled to keep confidential.

Information disclosure and risk

The Supporters of this Modification Proposal commented that the information requested in this Proposal would enable Shippers/Suppliers to have a better understanding of the likelihood and direction of price changes, thus making it easier for them when setting supplier prices, and for End-Users on pass-through contracts to budget more accurately.

Transco's Response

As previously stated, Transco considers that the "unguided" disclosure of financial information would not be helpful in giving an indication of the likelihood and direction of future price changes.

Proposed Discussion paper

One respondent (TGP) commented on the lack of progress with regards to the proposed Pricing Discussion (PD) paper on information disclosure.

Transco's Response

Transco believes that a PD paper could give Transco the opportunity to set out informed opinions about how to give shippers as much notice as possible about future changes. Transco fully intends to progress this.

Notification periods

Two respondents (BGT, TGP) commented that recent price notifications had been given with the minimum notification permitted. One respondent (NP) commented that if Transco was obligated to inform Ofgem and Shippers of a proposed price change as a "requirement" rather than using "reasonable endeavours" 150 days before implementation, then this "would give greater certainty of future price movements to shippers".

Transco's Response

Transco believes that the consistent compliance with the "reasonable endeavours" requirement to inform Ofgem when it is considering a price change 150 days in advance of the proposed implementation date and to share this information with the industry is the best and surest way of giving the industry advance notice of Transco's intentions. The provision of monthly information such as that requested would still leave the industry to second-guess what Transco may do and could prove to be more misleading than helpful.

Exit Charges

One respondent (PG) commented that Transco's belief that the proposed introduction of the TO Commodity charge would help price stability was misplaced as this was only a Proposal which, if rejected, would cause a large increase in Exit

charges which would damage Transco's ability "to provide clear and stable locational exit capacity signals".

Transco's Response
Transco believes that a TO Commodity Charge should help to avoid damage to Transco's ability "to provide clear and stable locational exit capacity signals".

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. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This revised Modification Report contains Transco's proposal not to modify the Network Code but has been prepared following direction from the Gas & Electricity Markets Authority.

19. Text

SECTION V

Insert a new paragraph 5.12 as follows:

"**5.12 Transportation Revenue Information**

In each calendar month Transco shall (subject to any confidentiality obligations to which it may from time to time be subject) arrange for the relevant information referred to in Annex V-3 (for the purposes of this paragraph 5.12 and Annex V-3, "**transportation revenue information**") to be published on such website as may be notified by Transco to Users from time to time, within 15 Business Days following the end of the immediately preceding calendar month (for the purposes of this paragraph 5.12 and Annex V-3, the **"immediately preceding month"**)."

Insert a new Annex V-3 at the end of Section V to read as follows:

"Annex V-3 – Transportation Revenue Information

1. For the purposes of paragraph 5.12 the transportation revenue information is forecast revenue and actual revenue, for the immediately preceding month and each calendar month prior thereto in the relevant Formula Year, in each case in respect of each of the categories of charges referred to in Table 1 below.

2. For the purposes of this Annex V-3:

   2.1 save as provided below, each of the categories of charges referred to in Table 1 below shall be consistent with those set out in the Transportation Statement and shall include any charges subsequently introduced in substitution for any of the same;

   2.2 **"forecast revenue"** shall mean Transco's estimate of the revenue to be recovered in respect of each relevant calendar month, using such criteria as Transco shall reasonably consider appropriate and having regard to the provisions of the Transportation Statement and any revenue or price control restrictions to which it may be subject from time to time (it being

acknowledged that such estimate may be subject to revision from time to time);

2.3 **"actual revenue"** shall mean such amount reasonably determined by Transco on an accruals basis (based on such information as is reasonably available to it at the relevant time) of revenue recovered or to be recovered in respect of each relevant calendar month (it being acknowledged that such amount may be subject to re-determination from time to time); and

2.4 **"relevant Formula Year"** shall mean the Formula Year in which the immediately preceding month falls.

Table 1 – Categories of Charges

- System Entry Capacity charges
- NTS (TO) exit capacity charges
- NTS (TO) commodity charges
- NTS (SO) commodity charges
- Transportation activity charges in respect of each distribution network (being all LDZ related charges referred to in the Transportation Statement in so far as such charges are relevant to that distribution network)."

Signed for and on behalf of Transco.

Signature:

Tim Davis
Customer Agreements Manager
NT & T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0698**, version **3.0** dated **28/01/2005**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **3.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or

   (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.