

CODE MODIFICATION PROPOSAL No. 0160
"Provision of Cost information"
Version 2.0

Date: 17/10/2007

Proposed Implementation Date: 01/01/08

Urgency Non Urgent

Proposer's preferred route through modification procedures and justification for Urgency (if applicable)

Urgent procedures are not sought for this Proposal.

It is proposed that this modification proposal is referred to the Distribution Workstream, for development, and is returned to the Modification Panel for subsequent progression to consultation. This modification is supplementary to and complements a Code Review Proposal to be raised by British Gas Trading.

Nature and Purpose of Proposal

Modification Proposal 698 (now implemented) provides high level information about the performance of GDN revenue collection against the allowed revenue under the relevant price control. Whilst this is of some use for forecasting purposes, it has limited use since there is insufficient detail and target revenue is not projected forward for the whole year. This proposal seeks to extend the scope of Modification Proposal 698 to provide the detailed information Shippers require about the core elements of Gas Distribution price control as detailed below. This will enable them to forecast more accurately the likely direction and magnitude of changes in transportation revenue over the remaining period of the current Gas Distribution price control, and over the forthcoming years of the next price control. It is the intention of this modification that information provided by the DNs will be used by shippers for their own forecasting purposes and that DNs will not be held accountable for errors or omissions. It is expected however that the DNs will endeavour to provide their best view at all times. Furthermore, it is not the intention of this modification that information provided by the DNs will be challenged by the shippers, although reasonable questioning can be expected.

| Revenue element | Monthly target (projected forward for the remainder of the price control year) | Quarterly reforecast of annual outturn* | Notes |
|----------------------|--|---|---------------------------|
| Distribution Network | | | Currently provided by the |

Joint Office of Gas Transporters'
0160: "Provision of Cost Information"

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| transportation activity revenue (DNMR) | | | Mod 698 report but not always to time and target revenue is not projected forward. |
| Core Allowed Revenue (DNZ) | | | Includes depreciation |
| Pass through costs (DNF) | | | Includes business rates and licence fees |
| Mains Replacement Adjustment (DNMRA) | | | |
| Incentive payments, shrinkage, exit cap, IAE etc. | | | |
| | Annual target | Annual actual | |
| Changes in RAV | May not be applicable | | Regulatory Asset Value** |

* It is envisaged that whilst this information will be posted onto the relevant DN websites, a meeting may be arranged from time to time to present this information to interested shippers.

** To be included in the remit of the Modification 162 work group.

The terms DNMR, DNZ, DNF, DNMRA and RAV have the meaning attributed to them in the relevant Price Control review. The incentives payment is an aggregate of all incentives other than the mains replacement incentive.

The quarterly actual and updated target information should be made available within one calendar month of the end of the month to be reported.

In addition, GDNs should be required to make available by the end of [April] following the price control year in question the indicative actual Regulatory Asset Value (RAV) of their network. This indicative actual Regulatory Asset Value shall be based on the GDN's best assessment of the efficient capex and repex investments they have made on their network during that time, accepting the fact that it is ultimately for Ofgem to decide whether investment is efficient and therefore if, and/or when, such investment should be included in the RAV at the end of the price control period.

Please note that this requirement is the subject of discussion in Modification 162, and therefore may be rescinded.

With greater transparency of the elements that make up the Price controlled revenue, Shippers and their related Suppliers can better assess the impact of revenue changes upon their business and the pricing of services to their customers. Shippers are currently unable to forecast future revenues with any certainty and cannot accurately assess future changes to transportation charges.

This information has become significantly more important now that there are effectively eight separate price controls for each GDN. The latest indicative charges show an average 26.5% increase in charges versus an inflation figure of 4.5%. These changes also show a wide variation from 2.9% to 64.0% between the different GDNs. Much more detailed information is required to enable Shippers to forecast such large and diverse increases to their costs and consequent better informed pricing to their customers.

It is expected that a further modification will be proposed to set up governance arrangements for subsequent changes to this (Modification 160) report. Once the new reporting is in place and seen to be working satisfactorily by the shippers, the Modification 698 information may be stopped in accordance with this governance.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives

The charging methodology for GDNs to recover their allowed revenue from system users is governed by obligations set out under standard condition 4A of the Transporter's GT licence. This modification will allow Shippers to forecast changes to these charges, which is not possible currently.

Under standard condition 9 of their GT licence, Transporters have an obligation to establish economic transportation charging arrangements which facilitate the efficient and operation of their pipeline system, secure effective competition between relevant shippers and suppliers and which secure domestic customer security standards. Transporters are also required to ensure that their charges reflect the costs that they incur in their transportation business. In setting charges, Transporters are required to use best endeavours to set transportation charges such that the total revenue from such charges does not exceed their allowed revenue in any given year.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

Some development may be required, but whilst the Proposer is unable to provide an estimate he believes that these costs should be minimal as the Proposer understands that this information is already available to Transporters.

Code Concerned, sections and paragraphs

New Section V 5.13 or subsection of V5.12

Proposer's Representative

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Proposer

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Signature

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