

Workstream Report
Provision Of Cost Information
Modification Reference Number 0160
Version 0.2

This Workstream Report is presented for the UNC Modification Panel's consideration. [The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification 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 based on latest available information)	Quarterly reforecast of annual outturn*	Notes
Distribution Network transportation activity revenue (DNMR)			Currently provided by the Mod 698 report but not always to time and target revenue is not projected

			forward.
Operational costs (DNZ)			Includes depreciation
Pass through costs (DNF)			Includes business rates and licence fees
Mains Replacement Expenditure (DNMRA)			Changes from targets may be sufficient (with explanation)
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 monthly 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.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation of this Modification Proposal would provide Shippers with

information that could be used to more accurately forecast changes to transportation charges. By making forecasts of future charges more accurate, Shippers and Suppliers would face less uncertainty and risk. Reducing risk and uncertainty facilitates the securing of effective competition between relevant Shippers and between relevant Suppliers.

DNs do not believe that publishing information as set out in this Proposal would enable Shippers to more accurately forecast changes in the level of transportation charges and hence do not believe that implementation would facilitate the achievement of this relevant objective.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Implementation would not be expected to better facilitate this relevant objective.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

Minor additional development and capital and operating costs would be incurred.

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

No additional cost recovery is proposed.

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

No consequence for price regulation has been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes to systems would be required as a result of implementation of this Proposal.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Users would have the option of using the information published as a result of implementing this Modification Proposal with a view to more accurately forecasting transportation charge levels. To the extent that this involves Users adopting new administrative and operational processes and procedures, any such change would be voluntary and only undertaken if the User believed that their benefits exceeded their costs.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

No such consequence has been identified.

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

No such implications have been identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of

implementing the Modification Proposal

No such consequences have been identified.

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

Advantages

- Provides additional information to the market
- Facilitates Shippers making more accurate predictions of the likely path of transportation charges

Disadvantages

- The additional information may have limited value and would not materially improve Shipper forecasts of the likely path of transportation charges

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

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

No programme for works has been identified.

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

It is proposed that the Modification is implemented with immediate effect following direction by the Authority.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workstream recommendation regarding implementation of this Modification Proposal

[The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]