

0557

Mod Title: Notice Period for Changes to Transportation Charges resulting from Uncertain costs allowed expenditure - financial adjustments.



Proposer: Colette Baldwin - E.ON

Panel Date: 17th September 2015

Why change?



- GDN Price Control Re-openers can result in large amounts of previously unstated revenue being adjusted via the Uncertain Cost Adjustment Mechanisms - with limited and insufficient notice periods being given to parties.
- The notice periods needs to be sufficient to enable Suppliers to react and adjust their tariffs to pass on increases and reductions appropriately.
- Mod 0186 reports were supposed to help provide information on probable future adjustments so that there was more visibility that would assist Shippers & Suppliers in forecasting the likely cost impacts. As evidenced by the current re-opener requests, this is not working effectively. Large revenue adjustments are being requested with an expectation that they will start to be recovered from April 2016 once confirmation is given by the Regulator.
- If there is insufficient time to flex tariffs rates or contract prices, the risk is that suppliers will have to include a risk premium to cover any uncertain costs adjustments, which given the nature of these adjustable items, makes forecasting likely adjustments very challenging and may result in under/over recovery from customers.

Options



- We regularly participate in the Distribution Charging Methodology Forum (DCMF) where Shippers collectively meet and discuss the Mod 0186 Reports, and have sought information and clarity via this mechanism – albeit unsuccessfully.
- Individually we have tried engaging directly with the GDNs to improve our understanding of likely charge changes but better information was not forthcoming.
- We feel that we need to strengthen the UNC requirements for information provision in a timely manner, whilst encouraging the GDNs to provide better information to the industry in their quarterly Mod 0186 reports.
- We considered introducing a more wide ranging requirement for price change notifications (as in electricity), but limited the scope of the modification to just the Uncertain Cost Adjustments elements of price control changes.

Solution



- The intention of this modification proposal is to extend the notice period for Uncertain Costs Allowed Expenditure Financial Adjustments so that they do not impact allowed revenues in the formula year that immediately follows the Authority Decision to permit the adjustment.
- This will ensure that there is a reasonable period for suppliers to respond and adjust their contracts and tariffs to ensure a fair and accurately targeted cost recovery approach.
- For Example: the Uncertain Costs Re-opener currently with Ofgem will see probably less than 6 months notice being provided for what are significant charging adjustments.

Recommended Steps



- The Proposer recommends that this modification should be:
 - Workgroup assessment to develop the modification for not more than 2 months
- We would ask the Panel to consider assigning this to a workgroup who can begin the assessment immediately. We consider there are 2 options available:
 1. The Governance Workgroup – as it relates to the governance of notice periods within the code, or
 2. The DCMF - as a charging issue. In that case however, we would ask that an extraordinary meeting be convened asap, as the next quarterly DCMF meeting is not scheduled until the 24th November.