

TRANSCO CONSULTATION REPORT ON PC39

Transco Review of Interruptible Services Conclusion and Proposals

1. TRANSCO'S INITIAL PROPOSALS

Transco consulted on two proposals for implementation from October 1999 and sought views on three other proposals for possible implementation some time in the future. The consultation also highlighted some broader issues arising from the review of interruptible services but since these were not pricing changes, they are not discussed in this report.

The proposals were :

For October 1999 implementation;

To reduce LDZ and NTS transportation commodity charges for NSLs by 10%.

To amend the formula for calculating the reduction in transportation commodity charges for TNI's so that the reduction is at least 10%.

For possible future implementation;

To reduce the threshold for interruptible services to 100,000 therms per annum.

To introduce a flexible interruption allowance.

To introduce LDZ capacity charges for interruptibles.

2. SUMMARY OF RESPONSES

In total there were seventeen responses, ten from shippers, three from end users and four from end user associations.

Five shippers supported Transco's view that it is inappropriate to undertake any fundamental reforms this year given the likelihood of future changes being driven by the Review of Gas Trading Arrangements.

2.1 Network Sensitive Loads

Transco proposed a 10% reduction in transportation commodity charges for NSL's with effect from 1 October 1999.

Eight shippers supported the proposal. Two thought the reduction should be greater, with one of these suggesting 20% or 25% as an appropriate reduction. One was concerned that a reduction now may be followed by a future increase through Transco's suggested LDZ capacity charge for interruptibles.

Of the seven end users/associations, four thought that NSL's should not exist and that Transco should invest to eliminate them. One supported the definition of NSLs but thought that a larger reduction was appropriate. The other two did not comment.

Transco's Response

Transco indicated in its consultation paper that the proposed reduction in commodity charges is not fully cost reflective but is an interim step. This was accepted by the majority of respondents and Transco does not propose changing the level of reduction.

Several responses were received from end users/associations expressing the view that Transco should invest to remove NSLs. The existence of NSLs reflects the physical realities of the system where there are differing levels of constraints in different parts of the system. Transco believes that NSLs aid the economic and efficient operation of the system; if investment were made to remove them it would result in higher charges for such sites and a reduction in the differential between firm and interruptible transportation charges. Transco recognises the fact that in a mild winter NSLs may be interrupted more than non-NSLs. Ultimately, Transco considers that the difference in the level of investment should be reflected in the difference in the level of LDZ capacity charges payable by interruptibles. The proposal for a 10% commodity charge reduction for NSLs is a first step towards introducing such a differential in charges.

2.2 Transco Nominated Interruptibles

Transco proposed that the minimum discount on NTS and LDZ commodity charges for TNIs should be increased to 10%, in line with the proposed commodity charge reduction for NSLs.

Four shippers supported this proposal. The other respondents did not comment on this proposal.

Transco's Response

All the respondents that expressed an opinion agreed with Transco that the minimum discount on NTS and LDZ commodity charges for TNIs should be increased to 10%, in line with the proposed commodity charge reduction for NSLs. Transco accordingly proposes to amend the minimum TNI reduction to 10% if the NSL reduction is implemented.

2.3 Threshold for Interruptible Services

Transco asked for views on whether the threshold for interruptible services should be lowered from 200,000 to 100,000 therms per annum.

Three shippers were in favour of reducing the threshold at this time. One end user/association agreed, but had concerns about a potential flight from firm.

One shipper welcomed the extra choice this will offer consumers but was concerned about the practicalities of administering the change in a short time span and thought it appropriate that the change be brought in alongside the proposed review of the charging regime. Another Shipper supported the principle but did not think it was appropriate now given the problems with cross subsidies in the existing regime.

Two shippers thought the threshold should not be changed. They were both concerned about the management of smaller loads and one was also concerned that there would be an increase in the cross subsidisation of interruptible consumers by firm consumers.

One end user group said that it was unaware of any smaller sites that would want to be interruptible and that the threshold should not be changed.

A further shipper and two end users/groups were negative about the proposal.

Transco's Response

The majority of respondents had some concerns about reducing the threshold from October 1999. Since interruptible charges are not yet as cost-reflective as analysis indicates they should be, and given the likely further changes to the interruptible regime in the next year, Transco believes this may not be an appropriate time to change the threshold. Transco therefore does not intend to implement this proposal for October 1999 but believe that it should be reconsidered at an appropriate time.

2.4 Flexible Interruption Allowance

Transco asked for views on the possible introduction of interruptible services with an interruption allowance other than 45 days. Indicative figures for 15, 20 and 30 day services were given.

Two shippers thought that Transco should investigate further how it can offer a flexible interruption allowance and that more analysis was required.

Two other shippers thought that, based on Transco's indicative figures, there would be no demand for such a service.

Two shippers thought that introduction at this time would be inappropriate until a full review of interruptible services had been carried out.

One shipper wanted more information before supporting the idea.

Five end users/associations were largely against reducing the maximum number of interruptible days.

Transco's Response

Transco agrees that further consideration should be given to these potential services but that they should not be implemented for October 1999. In particular the requirement for the service needs to be considered against Ofgas' expressed desire for the NTS exit capacity regime to be brought in to line with that being developed for entry capacity.

2.5 Capacity Related Costs

Transco explained why, on a cost reflective basis, transportation charges for LDZ supply points should contain a capacity element. Transco requested responses with a view to potential implementation from October 2000.

The five shippers that responded were generally positive about the need to remove possible cross subsidies in LDZ charging.

One shipper thought that it would be inappropriate to charge LDZ capacity costs to interruptible loads connected to the low pressure system because they do not differ in their operational manner to other interruptible loads.

One end user/association agreed with the proposal. Another was strongly against the proposal and thought that end users would end up paying for capacity to which they have no rights.

Transco's Response

Transco intends to review the LDZ capacity costs relating to interruptible supply points further with a view to coming forward with proposals for implementation from October 2000.

3. FINAL PROPOSALS

Taking into account the views of respondents, Transco proposes the following changes to the charging regime with effect from 1 October 1999:

A reduction in transportation commodity charges of 10% for Network Sensitive Loads.

Amending the formula for calculating the reduction in transportation commodity charges for Transco Nominated Interruptibles so that it becomes;

$$\frac{(N-45)}{183} \times 100\% \text{ or } 10\% \text{ whichever is greater}$$

where N is the lower of the maximum number of days of interruption for the TNI supply point and 183.