

TRANSCO PRICING CONSULTATION PAPER PC44

Charges for Specific Services at Interconnectors

SUMMARY

This paper describes Transco's proposals for the introduction of revised charges for the administration of a range of services at interconnectors.

Charges for these services were introduced on 1 January 1999 after consultation during 1998.

The services referred to are detailed within the relevant CSEP (Connected System Exit Point) ancillary agreements and the relevant sections of the NExAs which were developed by Modification Review Group 0117R.

This paper provides a brief description of the individual services involved, describes the specific administrative activities that Transco is required to undertake and includes an assessment of the costs involved. The methodology used to derive the charges, including the assumptions made, is also outlined. Differences between the proposed and present charges are set out.

In comparison with present charges there are proposed reductions for all services. In terms of daily charges the operation of the flow control valve reduces from £12.87 to £11.72, and the provision of the exit profile notice (EPN) reduces from £20.59 to £11.72. The EPN default charge has been reduced from £0.86 to £0.49 per event.

The paper concludes by setting out Transco's proposals for the introduction of the charges. It is proposed that the charges will be effective from 1st October 1999.

1. BACKGROUND

The CSEP ancillary agreement and the relevant sections of the NExAs (Network Exit Agreements) developed by Modification Review Group 0117R set out the specific services that Transco provides to those shippers and, where applicable, the shippers' agents, operating at the interconnectors.

During the summer of 1998 the agreements were being assessed by Modification Review Group 0117R. At that stage the business rules were sufficiently defined for Transco to put forward proposals for charges for these services. Transco proposed the charges as early as possible, consistent with the need to comply with the consultation timescale set out in Condition 4 of BG's PGT Licence and they were implemented on 1 January 1999.

Other services, such as the administration of allocation arrangements at interconnectors, are also in place. A review of the charges for these services are the subject of a separate consultation, pricing consultation paper PC45

In this paper consideration is given as to whether Transco or an Agent performs the service. Agents have been appointed, but if Transco were to carry out the service it will affect the cost of provision. Proposed charges have been put forward for both eventualities.

2. OVERVIEW OF SPECIFIC INTERCONNECTOR SERVICES

The range of services that Transco is required to provide is listed below. This section provides information on each service and the derivation of the proposed charges.

- Provision of Exit Flow Profile (or Offtake Profile Notice)
- Operation of the Flow Control Valve

The services are provided only at the GB-Ireland Interconnector. The provision of the services and the present derivation of the charges are based on the premise that these services are ordinarily required by shippers (as defined in Special Condition 9C of BG's PGT Licence). A different charging methodology may be appropriate in other circumstances.

i) Provision of Exit Flow Profile Notice (or Offtake Profile Notice)

Information About the Service

The Exit Flow Profile Notice sets out the rates at which gas will be offtaken over the gas-flow day and must be provided to Transco and the downstream operator on an hourly basis.

Although Agents have been appointed, in the event that shippers do not give approval to a downstream operator or agent to provide the Exit Flow Profile Notice, the relevant CSEP Agreement provides for Transco to generate the Exit Flow Profile Notice.

In addition, there is a requirement for Transco to generate a default notice in the event that on any day the downstream operator or agent fails to provide an Exit Flow Profile notice.

If required, Transco would generate the notice by aggregating all output nominations made by Shippers. Updates to the notice will be done during the gas flow day, taking into account all renominations made by Shippers.

Derivation of Proposed Charges

The proposed charges reflect the daily costs of administering this service or, in respect of the default service, reflect the one-off costs per event.

The breakdown of activities and costs, and the proposed charges are shown in Appendix I.

Since the derivation of the present charges development work has started on a system that will potentially provide a reduction in unit costs. The system employs an electronic screen-scraping to aggregate nominations and produce the Exit Profile Notice. The costs in Appendix I take account of this forward-looking assessment.

This reduction in unit costs coupled with the increased number of shippers offtaking at Moffat has meant that there would be a marked decrease in the charge. Appendix III presents a comparison between the proposed and present charges.

Experience has shown that since the charges were introduced on 1 January 1999 an agent has been providing the daily service and Transco has not been required to produce a default exit profile notice, therefore no charges have been levied for this service.

ii) Operation of the Flow Control Valve

Information About the Service

Following each hourly update of the Exit Flow Profile Notice, Transco must check and adjust (where necessary) the setting of the flow control valve upstream of the offtake. This also includes reporting faults and initiating contact with the downstream operator.

Derivation of Proposed Charges

The proposed charges have been based on the direct labour costs incurred in operating the flow control valve. The time taken to manage this activity has been based on experience to date, with no significant change being anticipated to the service or the way in which it is provided.

Transco proposes the charges be expressed as a daily charge levied on all shippers where the service is provided.

A full breakdown of the activities, costs and proposed charge is given in Appendix II. The cost per shipper for providing the service has decreased because the assumed number of shippers offtaking at Moffat has increased from eight to ten.

3. ANALYSIS OF COSTS

The services addressed in this consultation paper are of an administrative type. The costs have been determined by assessing the activities involved and the time taken to undertake

each activity. The direct costs are determined by applying the relevant direct labour rates. The methodology adopted is consistent with that used by Transco to set other administration charges, i.e. based on forward-looking costs taking into account anticipated system improvements.

In accordance with the assessment of appropriate charges for other services, as explained in Transco's paper 'Charging for Specific Services - Cost Assignment Methodology - A Background note by Transco (May 1999)', an uplift of 145% has been added to the direct labour costs to account for support and sustaining costs.

4. PROPOSED CHARGES

A table illustrating the proposed charges is given in Appendix III.

The proposed implementation date is 1 October 1999.

QUESTION FOR CONSULTATION

Respondents views are invited on the level and structure of the charges proposed by Transco for specific services at interconnectors as outlined in this consultation paper.

Breakdown of Costs for Operation of the Flow Control Valve**Daily Activities**

| Activity | Time / event (mins) | Time per day (mins) | Labour Cost per day | Uplifted Labour Cost per day |
|---|---------------------|---------------------|---------------------|------------------------------|
| Adjust / check the GTMS setting of FCV in accordance with the Exit Flow Profile Notice submitted. | 5 | 120 | £47.84 | £117.20 |

Times include initiating call out to rectify faults, and initial contact with downstream operator if fault is suspected..

Notes :

- i) Appropriate at the GB-Ireland Interconnector only
- ii) FCV adjustment/check is required every hour

Daily Charge per shipper

| | <u>GB-Ireland</u> | Annual Cost | |
|-----------------------|-------------------|-------------|--------|
| i) assume 10 shippers | <u>£11.72</u> | x365 | £4,278 |

**(i) Proposed Administration Charges for Specific Services
at the GB-Ireland Interconnector (excluding allocation arrangements)**

| Daily Charges (£/day per shipper) | GB-Ireland | |
|--|---------------|-----------------|
| | Agent service | Transco service |
| Provision of Exit Profile Notice | £0.00 | £11.72 |
| Operation of Flow Control Valve | £11.72 | £11.72 |
| Total Daily Charge | £11.72 | £23.44 |
| One-off Charges (£ per shipper per event) | | |
| EPN Default Charge | £0.49 | n/a |

**(ii) Present Administration Charges for Specific Services
at the GB-Ireland Interconnector (excluding allocation arrangements)**

| Daily Charges (£/day per shipper) | GB-Ireland | |
|--|---------------|-----------------|
| | Agent service | Transco service |
| Provision of Exit Profile Notice | £0.00 | £20.59 |
| Operation of Flow Control Valve | £12.87 | £12.87 |
| Total Daily Charge | £12.87 | £33.46 |
| One-off Charges (£ per shipper per event) | | |
| EPN Default Charge | £0.86 | n/a |