

TRANSCO PRICING CONSULTATION PAPER PC46

Administration Charges Associated with Connected System Exit Points

SUMMARY

This paper describes Transco's proposals for charges for the administration of Connected System Exit Points (CSEPs) containing both Non Daily Metered (NDM) and Daily Metered (DM) supply points. The present charge is £5 per supply point. Separate charges are proposed in this paper for NDM and DM CSEPs.

The proposals in this paper were derived using the same methodology as that used to derive proposed charges for the administration of Allocation Agreements (PC45). In order to derive forward looking charges, the proposals are based on an assessment of the systems and processes likely to be in place during the 1999/2000 pricing year, rather than the systems and processes presently used. In this way account has been taken of potential reductions in unit costs in order to derive relevant forward-looking estimates of ongoing attributable costs.

The cost structures for administering DM CSEPs and NDM CSEPs are different. The former is more akin to administering allocation arrangements for shared supply meter points and interconnectors, and cost reflective proposals are presented on this basis. The proposed NDM CSEP charge structure is simpler.

For DM CSEPs the proposed charges are dependent on whether the site is telemetered or non-telemetered and are split into three categories: daily, set up and transfer. They are:

	<u>Non-telemetered</u>	<u>Telemetered</u>
Daily	£2.06	£1.61
Set up	£66	£53
Transfer	£24	£18

Analysis of the costs of administering NDM CSEPs shows that cost reflective charges based on a supply point basis would consist of a charge of £6.50 per supply point

Where a CSEP comprises both NDM and DM supply points, it is proposed that the NDM charge would apply exclusively to the NDM supply points and that the DM charges would apply separately to the DM supply points.

Additional information can be obtained from the paper, Determining Transportation Charges for Local Distribution Zone Connected System Exit Points, which looks at the charging structure for CSEPs. It will be published soon after the consultation papers are issued.

1. BACKGROUND

1.1 General

At the time of drafting the Network Code, the industry recognised the need to support the development of connected systems operated by Public Gas Transporters other than Transco. However, the commercial regime for CSEPs was not sufficiently well defined for UK-LINK functionality to be developed in time for Network Code implementation. Consequently, it was agreed that CSEPs would be managed off line until a system solution was developed. Subsequently, UK-LINK development time has been focused on consolidating and improving system performance and facilitating Domestic Competition.

Therefore, in the meantime, Transco will continue to manage CSEPs using a combination of manual and PC-based processes. Over the last three years Transco has continually improved the efficiency of these processes and unit costs have been reduced. In formulating the proposals in this paper Transco has therefore sought to identify the on-going long term stable costs of administering CSEPs, taking account of anticipated cost reductions. In keeping with this principle, system development costs have not been included in this analysis.

Transco have many CSEP processes which are currently carried out off-line for which Transco incurs costs. Transco seek to fully reflect these costs in the charge. last year some IPGTs and shippers queried whether these processes should be reviewed to further enhance efficiency. Transco believes the present processes are robust although current efforts to increase efficiency should further reduce costs.

Transco is proposing revised charges to mitigate against cross-subsidising CSEP shippers. CSEP shippers presently pay a charge per supply point to reflect Transco administration costs but do not pay customer charges. Non-CSEP shippers pay customer charges but, because the administration charges for CSEPs are presently not cost reflective, there is an element of cross-subsidy.

1.2 NDM CSEPs

The NDM CSEP Administration charge is presently £5 per supply point. In 1997 a proposal to increase the charge to £10 per supply point was vetoed by Ofgas. This followed concerns expressed in the consultation exercise that the proposed increase was not cost reflective and that it could have an anti-competitive effect. In 1998, Transco attempted to address industry concerns by proposing a cost-reflective charge with a cost per shipper element as well as a cost per supply point element. The proposed annual charges of:

£20 per shipper
£3 per supply point

were based on a phased implementation but were vetoed by Ofgas primarily because they were considered to constitute a barrier to competition.

1.3 DM CSEPs

The DM CSEP administration charge is presently £5 per supply point, the same as for Non Daily Metered (NDM) supply points.

Whilst there are some similarities between the administrative processes required for NDM and DM CSEPs, Transco's costs associated with administering the processes required to support DM CSEPs are considerably higher. For example, for DM CSEPs, each shipper's allocated gas flow is manually entered to UK-Link on a daily basis. In practice the daily administrative processes required for DM CSEPs are more similar to those for allocation arrangements.

In May 1998 Transco consulted on charges for administering DM CSEPs. One of the reasons Ofgas vetoed these proposals was that CSEPs containing daily metered supply points were relatively rare and, as more of these became live, the operational experience would provide data to support the proposals.

1.4 Transportation Charges for CSEPs

The present methodology for determining CSEP-related transportation charges and the reasoning behind it are detailed in an information paper, Determining Transportation Charges for Local Distribution Zone Connected System Exit Points, which will be published soon after the present round of pricing consultation papers. That paper provides background to the charging methodology but refers, at a high level, to the administration charges detailed in this paper.

2. ADMINISTRATION COSTS

2.1 NDM CSEPs

CSEP administration costs are mostly driven by the number of logical (notional) meters. CSEPs are represented on UK-LINK by a logical meter, one for each shipper serving supply points within the CSEP. Transco allocates CSEP energy at the logical meter (not supply point) level.

In deriving proposed charges for NDM CSEPs Transco has used the same methodology as that used to derive proposed charges for allocation agreements. Briefly, the activities that are necessary to manage CSEP administration were identified, and the time that it would take to carry out each activity for one logical meter was estimated. The costs associated with administering CSEP reconciliation have also been included. This methodology provides a basis for estimating forward looking attributable costs.

Secondly, Transco is committed to further improving the efficiency of CSEP administration. Therefore, in order to derive stable, longer term cost estimates, the projected costs have been based on an assessment of the systems and processes likely to be in place during the 1999/2000 pricing year, rather than the systems presently used. In this way account has been taken of future improvements in efficiency. The analysis is described further in Appendix 1.

2.2 DM CSEPs

In order to derive stable, longer term cost estimates, projected costs have been based on an assessment of the systems and processes likely to be in place during the 1999/2000 pricing year, rather than on the systems presently used. In this way account has been taken of likely improvements in efficiency, in order to derive relevant forward-looking estimates of ongoing attributable costs.

Analysis shows that the daily and monthly administrative processes required for DM CSEPs are similar to those required for allocation arrangements. Similarities include setting up a logical meter on UK-Link, entering allocated gas flows to UK-Link on a daily basis, and producing an ad hoc invoice on a monthly basis.

However, there are some differences in the administrative activities and associated costs. For example, for DM CSEPs, there are no transportation offers or confirmations to process. Consequently, the set up and shipper transfer costs for DM CSEPs are somewhat less than for allocation arrangements.

Appendix 2 shows the costs associated with the relevant DM CSEP administration activities.

3. PROPOSED CHARGES

3.1 NDM CSEPs

Two different charging structures have been considered :

- * A fixed charge per logical meter (shipper)
- * A fixed charge per supply point, as at present

3.1.1 Charge per Logical Meter

Transco believes that the most cost reflective charge would be a "per logical meter" charge (this is the same as a charge **per shipper**), reflecting that costs are driven by the number of logical meters, not the number of supply points. Such a structure would also be consistent with proposed charges for DM CSEPs and allocation arrangements.

However, at the fully cost-reflective level, such a charge may present a barrier to competition since a shipper would face a total charge of about £110 per CSEP in the first year, which would only be less than the existing charge of £5 per supply point if the shipper supplied more than twenty two supply points.

3.1.2 Charge per Supply Point

In contrast to the charge per logical meter it has been argued that a "per supply point" charge helps to facilitate competition in gas supply as it allows shippers to compete on an equal basis. This is the approach embodied in the present charging methodology.

In order to update the charge per supply point in line with the present charging methodology it is necessary to make assumptions about CSEP growth and the number of supply points per logical meter. These assumptions add uncertainty to any cost estimates and are sensitive to a range of external factors, including the extent of competition.

Assumptions

The number of CSEPs is growing more quickly than assumed. There were 607 live CSEPs at December 1997 (against an assumption of 403), 2729 at March 1999 (against an assumed average of 2000 during the 1998/99 pricing year) and, at the present rate of growth, there could be about 5,000 live CSEPs by September 2000.

For the purposes of this paper it is assumed that there will be an average of 4000 NDM CSEPs over the 1999/2000 pricing year. This figure is not inconsistent with estimates provided to Transco by Ofgas.

At present, CSEP costs are largely driven by the number of logical meters, which in turn is determined by the number of shippers serving each CSEP. Presently, the number of CSEPs is approximately equal to the number of logical meters, since most CSEPs are served by a single shipper. However, domestic competition can be expected to lead to an increase in the average number of shippers per CSEP. Clearly any assumption about the number of shippers is dependent on the extent, within CSEPs, of competition in gas supply but, for the purpose of this analysis, it has been assumed that there are two shippers per CSEP. Therefore, the average number of NDM logical meters for the 1999/2000 pricing year is assumed to be $2 \times 4000 = 8000$. At this level of activity, it is forecast that total CSEP administration costs will be approximately £729,000.

Finally, it is assumed that the average number of supply points per CSEP remains at about 28. Therefore, the total number of supply points is forecast to be $28 \times 4000 = 112,000$ and the relevant charge per supply point is £6.50.

3.1.3 Proposal

In Transco's view, a cost reflective structure for the NDM CSEP administration charge would comprise a one-off set up charge, a fixed annual charge per shipper, and a shipper transfer charge. This structure is also consistent with Transco's proposals for DM CSEPs and for allocation arrangements.

However, it is recognised that it may be argued that, if such charges were set at a level that reflected the true costs, this may represent a barrier to competition in supply on CSEPs. Indeed the proposals put forward by Transco for 1998/99 contained a fixed element per shipper, but were vetoed by Ofgas on the basis that this could be a barrier to competition.

The alternative, i.e. charging on a "per supply point" basis, does not directly reflect the way in which Transco incurs costs, but it is the current charging structure and it can be argued that this facilitates competition. Since analysis shows that the present charge of £5 per supply point is not cost reflective, for 1999/2000 Transco propose an annual charge of £6.50 per supply point.

It is proposed that the charge is effective from 1 October 1999

The proposed charge is expected to generate revenue of approximately £780k based on the assumptions set out in this paper.

3.2 DM CSEPs

Transco's proposals are described in detail in Appendix 2 and summarised below. The proposed structure of the charges reflects the similarities with allocation arrangements; PC45 describes the relevant processes in more detail.

	<u>Non-telemetered</u>	<u>Telemetered</u>
Daily	£2.06	£1.61
Set up	£66	£53
Transfer	£24	£18

The proposed charges assume that daily allocations are provided to Transco by the Connected System Operator or their agent.

It is proposed that the charges are effective from 1 October 1999 and that:

- * The relevant daily and shipper transfer charges should apply to all new and existing DM CSEPs from 1 October 1999, and
- * The set up charge should only apply to new DM CSEPs nominated on or after this date.

The charges are expected to generate revenue of approximately £30,000, based on the assumptions set out in this paper. The actual revenue will depend on both the actual number of DM CSEPs and their attributes, for example the number of telemetered CSEPs.

3.3 Future Revision of Charges

There are a number of on-going commercial developments associated with CSEPs. Two Network Code Modifications, 0319, Connected System Annual Quantity Updates, and 0216, NDM CSEP Reconciliation, if implemented could affect the processes required for Transco to support supply to CSEPs. These could have contractual ramifications as well as impacting on the costs of administering the processes associated with these supply points.

Presently the business rules relating to DM CSEPs (in the relevant NExA) have not been finalised. These could also impact on the costs and nature of services provided.

4. IMPLEMENTATION

It is proposed that the charges set out in the consultation paper take effect from 1 October 1999.

For the avoidance of doubt, where a CSEP comprises both NDM and DM supply points, it would be necessary to create separate logical meters on UK-LINK. Therefore, it is proposed that the NDM charge would apply exclusively to the NDM supply points and that the DM charge would apply to the DM supply points.

QUESTIONS FOR CONSULTATION

Respondents views are invited on the level of the charges proposed by Transco for administering connected system exit points.

NDM CSEP ADMINISTRATION COSTS

The following table describes the activities, frequency of activity, time (in minutes) and costs per logical meter.

Activity	Frequency	Mins	Cost	Annual
Cost				
1. <u>Set-up Costs</u>				
Develop commercial framework	N/A	N/A	£32.61	
Add details to CSEP database	One off	<1	£0.78	
Set up on UK-LINK	One off	10	£5.90	
Sub-total set up costs			£39.29	£157k
2. <u>Ongoing Costs</u>				
Change AQ	365	0.2	£42.77	
Data quality checks	12	<1	£0.80	
Fax allocations & CV to PGT	365	<1	£9.58	
Issue Ad Hoc Invoice	12	1	£7.11	
Reconciliation	12	<1	£0.30	
Sub-total ongoing costs			£60.57	£484k
3. <u>Shipper transfer Costs</u>				
Change shipper detail	1	25	£ 10.92	£87k
			Total	£729k

Notes :

- * All costs include 145% uplift to reflect support and sustaining costs as explained in Transco's paper 'Charging for Specific Services - Cost Assignment Methodology - A Background note by Transco (May 1999)'
- * "Develop Commercial Framework" includes one-off activities associated with the ongoing development of the legal and commercial framework for the provision of CSEP services. Whilst some of the costs have different drivers, for simplicity the forecast costs have been expressed as a cost per logical meter.

Breakdown of Costs for DM CSEPs: Non-Telemetered Sites

		With Agent		
Non-Telemetered	Activity	Time (mins) per CSEP	Time (mins) per shipper	Cost per shipper
Set Up Activities	1Manage commercial framework	NA	NA	£44.29
	2Create logical meter no.	30	20	£8.44
	3Set up logical meter on Link	15	10	£5.09
	4Set up details on Unique Sites Billing System	30	20	£8.44
				£66.27
Daily Activities	As Allocation Arrangements at shared supply meter points (see PC??)			
Monthly Activities	As Allocation Arrangements at shared supply meter points (see PC??)			
Shipper-Shipper Transfer Activities	1Create & close down logical meter no's	30	30	£10.19
	2Amend details on Unique Sites Billing System	20	20	£8.44
	3End date & create logical meters on Link	10	10	£5.09
Change to Allocation Split	1Amend details on Unique Sites Billing System	20	13.3	£5.63
	2Amend default spreadsheet	15	10	£5.80
				£11.43

Costs and Charges Summary - DM CSEPs (Non-telemetered sites)

(Daily Charge)	Agent Service	
	Cost per activity	Annual Cost
Daily activities	£1.27 x 365	£463
Monthly activities	£23.18 x 12	£278
Change to Allocation Split	£11.43 x 1	£11
	Total	£752
	Charge	
Daily Charge	£752 /365	£2.06
Set up Charge	(per request)	£66
Transfer Charge	(per request)	£24

Telemetered Sites

Appendix

		With Agent		
Telemetered	Activity	Time (mins) per CSEP	Time (mins) per shipper	Cost per shipper
Set Up Activities	1Manage commercial framework	NA	NA	£44.29
	2Set up logical meter on Link	7.5	5	£2.09
	3Create details on allocations database	15	10	£5.09
				£51.47
Daily Activities	As Allocation Arrangements at shared supply meter points (see PC??)			
Monthly Activities	As Allocation Arrangements at shared supply meter points (see PC??)			
Shipper-Shipper Transfer Activities	1Amend details on Unique Sites Billing System	10	10	£5.09
	2End date & create logical meters on Link	10	10	£5.09
	3Update Comm Op's database	15	15	£7.64
				£17.82
Change to Allocation Split	1Amend details on Unique Sites Billing System	10	6.7	£5.63
	2Update Comm Ops database	35	23.3	£11.43
				£17.06

Costs and Charges Summary - DM CSEPs (Telemetered sites)

(Daily Charge)	Agent Service	
	Cost per activity	Annual Cost
Daily activities	£0.81 x 365	£294
Monthly activities	£23.18 x 12	£278
Change to Allocation Split	£16.59 x 1	£17
	Total	£589
	Charge	
Daily Charge	£589 /365	£1.61
Set up Charge	(per request)	£53
Transfer Charge	(per request)	£18