TRANSCO CONSULTATION REPORT ON PC52

TRANSPORTATION CREDITS FOR CONSTRAINED LNG

1. Transco's Initial Proposal

In PC52 Transco proposed that the credit for CLNG deliverability should be based on the exit capacity charge rates at the relevant exit zones at any time and that this credit should be applied to the full CLNG facility deliverability booked by shippers.

2. Summary

In total there were five responses. One respondent supported the proposal as outlined, two respondents supported the level of credits but opposed their application to the full deliverability, and two respondents opposed both aspects as outlined.

3. Summary of responses

3.1 Interim Status of Proposal

All respondents commented that any changes along the lines proposed should be considered as an interim solution and that their support to the proposals, where given, was on this basis. Some of the respondents mentioned alternative mechanisms for Transco to acquire CLNG or services providing similar system support. In particular, one shipper thought that Transco should offer to purchase self-interruption from firm loads on the same basis. Another shipper thought that Transco should contract on a longer term basis for the necessary services.

Transco's Response

Transco accepts that the proposals should be considered as an interim step. As noted in the paper, Transco hopes that the introduction of the new methodology will facilitate a more general reform of LNG services. The merits of alternative longer-term mechanisms should be debated in other forums dedicated to the longer-term reform of the exit capacity regime.

3.2 Level of Credit

Three respondents supported the level of credits proposed. Two respondents opposed the level of credit on the grounds of a comparison with interruptible services. They argued that interruptible services provide up to 45 days interruption whereas CLNG provides only 5 days and consequently should receive a lower credit. One of these respondents further argued that any significant increase in the level of CLNG credits should only be managed through a review of interruptible services. This respondent was also concerned that any excessive credit would become entrenched and prejudice future regulatory consideration of the treatment of LNG.

Transco's Response

The level of credit proposed is based upon CLNG providing a substitute for pipeline capacity, in a similar way to which interruptible services, by not being firm, do not require peak day NTS pipeline capacity. Neither CLNG nor interruptible services are a substitute for additional pipeline capacity in all aspects; for example neither provide additional throughput capability through the majority of the year. Similarly CLNG and interruptible services are not perfect substitutes for one another. Interruptible services, as presently defined, normally offer up to 45 days interruption whereas CLNG may typically provide between 5 and 13 days transmission support. However CLNG is available at shorter notice and for part-days. At present, the difference in transportation charges between firm and interruptible transportation does not reflect the operational forecast need for a particular level of interruptiblity for each supply point, but reflects the more general requirement that interruptible services do not contribute to any need for peak day NTS capacity support. CLNG provides support in a similar way and thus, with the present structure of firm and interruptible charges, Transco considers it reasonable that they get a similar level of credit.

In recognition of the fact that CLNG has a lower maximum duration that the 45 day interruptible service, Transco proposes that a lower level of credit be given by reducing the deliverability to which the full level of credit is applied, as detailed in section 3.3.

Transco recognises that there is a need to review the way interruptible services are structured and charged for. However, such a review needs to be conducted within the wider context of other changes to the way transportation services are offered and charged for. It is not envisaged that any definitive new arrangements for interruptible services will be in place in the short term. The proposal for the level of credits for CLNG is aimed at bringing the level into line with present arrangements for interruptible services. This should not prejudice any review of interruptible services.

3.3 Eligible Quantity for Credit

One respondent supported the proposal, the other four respondents opposed applying the credit to the full deliverability. The arguments used in support of their opposition were:

(a) that applying the credit to a level of deliverability higher than is needed operationally is unjustified and represents a cross-subsidy of LNG Storage;

(b) that it is unnecessary and would be cheaper to end-users to pay the credit at the lower operational level;

(c) that it will discourage the development of competition in storage.

Transco's Response

Transco still considers that it is reasonable to apply the level of credit to the full deliverability, net of that purchased for Operating Margins purposes, of the LNG facility and does not consider that such application would have the effects put forward by the respondents.

However it notes that this aspect of the proposal did not find favour with the majority of respondents. Transco proposes that, taking this and the responses on the level of credit into account, the credit should be applied to a lower deliverability, as detailed below, for each constrained LNG facility.

The CLNG space monitor volume should be divided by the forecast maximum duration of deliverability in order to determine the average deliverability provided. This average deliverability should be calculated as a percentage of the full deliverability, after taking account of the Operating Margins booking. This percentage should then be applied to the standard rate of credit, based on the equivalent exit charges for the area supported by the CLNG, to determine the credit to be applied against all bookings, apart from those for Operating Margins, at the facility. This calculation is shown below for the two Constrained LNG facilities with positive constrainted volumes in 2000/01, based upon exit charges as from 1 May.

		Avonmouth	Isle of Grain
CLNG space monitor	GWh	441	591
Forecast maximum duration	Days	9	9
Average CLNG deliverability	GWh/day	49	66
Facility deliverability after OM	GWh/day	112	163
Av CLNG as % of Facility del.	%	43.75%	40.29%
Credit based on exit charge	p/pdkWh/day	0.0226	0.0112
CLNG credit	p/pdkWh/day	0.0099	0.0045

Transco estimates that, on the basis of the above figures, the maximum credit related to the CLNG facilities in 2000/01 will be £6.7m.

3.4 Impact on Particular Users

One respondent thought that the proposal would introduce an inappropriate subsidy from NTS users, which have a higher proportion of generators than average. They considered that NTS loads have already contributed to pipeline system reinforcement via Advanced reservation of Capacity Agreements (ARCAs) and should not be contributing to CLNG which they do not use for their own peak capacity needs.

Transco's Response

Transco considers that the level and application of credit proposed does not represent a subsidy in any sense. ARCAs include a guaranteed minimum level of payment by the other party, which would normally be covered by the level of transportation charges paid. Such payments are not contributions for any pipeline system reinforcement.

Under the present pricing methodologies, the application of credits for CLNG leads to slightly higher NTS charges than otherwise. These charges are payable by shippers with respect to all loads on the system, not just NTS loads. The level of exit charge for a particular exit zone is based upon the long run marginal cost (LRMC) analysis and does not contribute to, or relate directly to, the actual cost of reinforcement or CLNG for any particular part of the NTS.

3.5 Allocation of Credit

One respondent suggested that, if the credits were to be limited to the level of deliverability needed operationally, then the credits should be applied in proportion to gas held at the CLNG facility at 1 October which is accessible by Transco for transmission support purposes.

Transco's Response

Transco proposes that the credit should be applied to the full deliverability at the CLNG facility, net of Operating Margins, and so the issue of allocation of the credit does not arise.

However, were the credit only to be available with respect to the level of deliverability needed operationally then the need for a credit allocation process would introduce uncertainty, for the user at the time of booking the LNG storage, into the level of credit which would actually be available, since this would depend on others' actions.

3.6 Payment of the Credits

One respondent suggested that the credits should be paid as negative transportation charges in the six months from October to March, rather than over the whole year. This would link in with their proposal that the allocation of the credit be based upon gas held at 1 October.

Transco's Response

The present arrangement, whereby the credit is applied on a daily basis, has not created any problems to date. This method of application is consistent with that for other transportation charges and Transco sees no reason to change it at present.

3.7 Long-term Treatment of Transmission Support Costs

One respondent accepted, for the short-term, that the credits given for CLNG for transmission support should be treated as negative income, so that Transco does not bear the cost. However they believed that in the long-term Transco should not be insulated from the costs of transmission support.

Transco's Response

Transco is pleased that the present arrangement for the treatment of the credit, for the short-term, is supported. The treatment of the costs of transmission support in the long-term should be considered as part of a wider review of such arrangements.

3.8 Regulatory Position of LNG Assets

One respondent saw Transco trying to bribe shippers into allowing Transco to transfer LNG assets back into the regulated transportation base, thus protecting LNG from the rigors of storage competition.

Transco's Response
Transco's proposal relates to the level of transportation credit for CLNG within the present arrangements and is not intended to prejudice or influence any change to the regulatory position of LNG assets.

4. Final Proposal

Transco has noted the respondents' views on the initial proposal and has amended the final proposal. It proposes that the methodology to determine the credits for CLNG deliverability should be as set out in section 3.3. On the basis of the exit charges applying from 1 May 2000, the forecast Operating Margins bookings and constraint requirements, the credits will be:

	Proposed Credit Pence per registered kWh per day
Isle of Grain LNG	**0.0045**
Avonmouth LNG	**0.0099**

Transco proposes that this credit should be applied to the full CLNG facility deliverability, net of that purchased for Operating Margins purposes.