

TRANSCO CONSULTATION REPORT ON PC56

Optional LDZ Tariff

1. Transco's Initial Proposal

In PC56 Transco proposed the introduction of an optional LDZ tariff which could prove an attractive alternative to standard LDZ charges, for large LDZ connected loads located close to the NTS. The rationale for the optional tariff is that the standard tariff can appear to give perverse economic signals to these loads to build a direct link to the NTS causing unnecessary duplication of infrastructure. The proposed charge is based on the estimated costs of laying and connecting a dedicated pipeline for a range of flowrates and distances from the NTS.

2. Summary

In total there were seventeen responses: One respondent wished their response to be unattributed (referred to as UR - unattributed respondent. The other respondents were:

Shippers

Scottish Power	SP
British Gas Trading	BGT
Total Gas Marketing	TGM
Scottish & Southern	SSE
Shell Gas Direct	SGD
BP Gas Marketing	BPGM
Northern Electric	NE
V-is-on	V-is
Eastern TXU	TXU
Npower	Np
PowerGen	PG
Alliance Gas Ltd	AGL
Elf Gas and Power	EGP

User or User Associations

Corus	Corus
AEP	AEP
MEUC	MEUC

Eleven respondents were in favour of the proposed charge and six opposed it.

3. Issues raised

3.1 Economic rationale

Whilst there was a significant majority in favour of the proposal, there was little in depth comment to support the economic rationale behind the tariff. Three respondents (UR, BGT, PG) did not accept that there is a real threat of the loads identified by-passing the system as they would encounter a number of problems in building an alternative pipeline such as planning permission. In support of this view they stated that such loads have persisted with their existing supply arrangements for a number of years. A few respondents suggested that alternative pipelines would be built if Transco did not introduce alternative charging structures.

Transco's response

Although Transco is aware of only one LDZ load which has since built a connection to the NTS, it may be the case that some loads have deferred building a new link to the NTS because they believed that Transco might introduce an optional LDZ tariff. Transco still believes that it is worth while introducing an optional LDZ tariff to reduce the possibility of inefficient direct NTS connections.

3.2 Cost reflectivity and cross-subsidy

A number of respondents expressed concerns about moving away from the averaging process previously used to set LDZ charges and the resulting inconsistencies in charging methodologies between different sets of customers. One respondent (AGL) stated that if the optional LDZ tariff “is cost-reflective, then supplies far distant from the NTS should presumably pay a premium.” Another respondent (PG) expressed concern that implementation of this proposal might be the ‘thin edge of the wedge’ with further distance related proposals undermining the current reasonably robust LDZ charging methodology.

Transco's response

The proposed charge is only likely to be taken up by a small number of loads and does not significantly affect the great majority of LDZ loads. The principle of offering an optional tariff to large loads which might by-pass Transco’s system was accepted with the introduction of the optional NTS tariff in June 1998. Such loads have a practical means of choosing alternative supply arrangements and if they were to by-pass then this would have a more detrimental effect on the level of charges to other loads than an optional tariff would.

3.3 Structure of charge

Three respondents (SP, Corus, and AEP) were in favour of a capacity based charge with only one respondent (Np) favouring a reduced commodity charge.

Transco's response

Transco believes that a capacity based charge better reflects the cost drivers than a commodity charge since the optional LDZ tariff is based on the costs of building and maintaining a dedicated pipeline.

3.4 Relation to Customer charge

One respondent (SSE) was unclear as to whether customer charges would apply if the optional LDZ tariff were chosen.

Transco's response

The customer charges would still apply if the optional LDZ tariff were chosen.

3.5 Notification of Loads

Three respondents (SGD, AEP, TXU) wished to be informed in advance which loads would find it beneficial to switch.

Transco's response

Transco is presently considering to whom the relevant data should be provided – for example, whether all shippers should have details of all loads likely to benefit or only the incumbent shipper.

4. Final Proposal

Transco has noted the majority support for the optional LDZ tariff and proposes that the optional tariff as initially proposed should be introduced.

The proposed price function for the tariff (in p/pdkWh/d) is as follows :

$$902 \times [(\text{SOQ})^{-0.834}] \times \text{D} + 772 \times (\text{SOQ})^{-0.717}$$

where **SOQ** is the Registered Supply Point Capacity in kWh per day, and **D** is the direct distance, in km, from the site boundary to the nearest point on the NTS.

The indicative levels of the tariff are:

Proposed optional LDZ tariff, p/pdKWh/d, for combinations of distances and SOQs

SOQ GWh/d	Distance - km							
	0	2	4	6	8	10	15	20
1	0.0385	0.0564	0.0743	0.0921	0.1100	0.1279	0.1726	0.2173
2	0.0234	0.0335	0.0435	0.0535	0.0635	0.0736	0.0986	0.1237
3	0.0175	0.0247	0.0318	0.0390	0.0461	0.0533	0.0711	0.0890
4	0.0143	0.0199	0.0255	0.0311	0.0368	0.0424	0.0564	0.0705
5	0.0121	0.0168	0.0215	0.0262	0.0308	0.0355	0.0472	0.0588
6	0.0107	0.0147	0.0187	0.0227	0.0267	0.0307	0.0407	0.0508
7	0.0095	0.0131	0.0166	0.0201	0.0237	0.0272	0.0360	0.0448
8	0.0087	0.0118	0.0150	0.0181	0.0213	0.0244	0.0323	0.0402
9	0.0080	0.0108	0.0137	0.0166	0.0194	0.0223	0.0294	0.0366
10	0.0074	0.0100	0.0126	0.0152	0.0179	0.0205	0.0270	0.0336
12	0.0065	0.0087	0.0110	0.0132	0.0155	0.0177	0.0234	0.0290
15	0.0055	0.0074	0.0093	0.0111	0.0130	0.0149	0.0195	0.0242
20	0.0045	0.0060	0.0074	0.0089	0.0104	0.0118	0.0155	0.0192