

## **TRANSCO PRICING CONSULTATION PAPER PC58**

### **Residual Customer Charge**

#### **Summary**

At present the customer charge reflects supply point and customer-related costs, including metering costs. With the proposal to have separate metering charges from October, a revised customer charge is required.

The proposed new customer charge is based upon the existing methodology but excluding metering costs. The structure of the charge has been kept the same. The parameters of the proposed charge have been set initially so as to give a customer charge as close as possible to the charge generated by the existing customer charge excluding the meter charges/rebates.

The level of the indicative customer charge for application from 1 October 2000 takes account of the proposed 6.7% customer charge reduction by scaling down all the parameters uniformly.

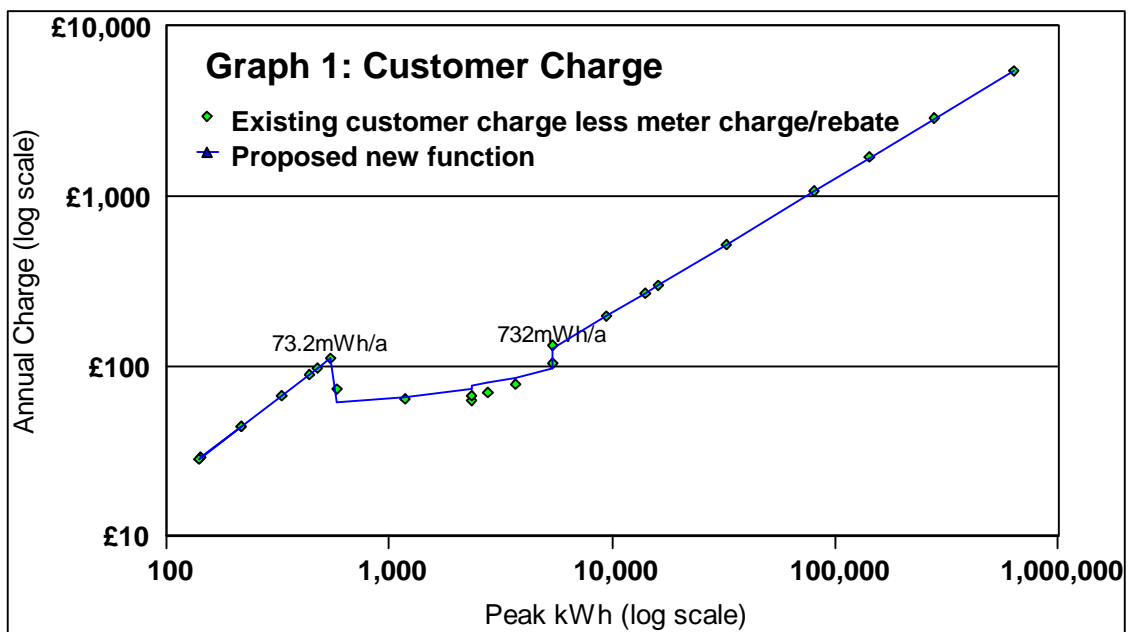
## 1. Introduction

At present the customer charge reflects supply point and customer-related costs, including metering costs. With the proposal to have separate metering charges from October, a revised customer charge is required.

Transco intends, beyond October 2000, to move towards disaggregation of the customer charges. Given this intended major change, Transco considers that, in the interests of charging stability, it is beneficial to retain the present customer charge structure and to merely adjust the parameters of the charge so as to give customer charges for each supply point as close as possible to the charge generated by the existing customer charge excluding the meter charges/rebates.

## 2. Fit of New Customer Charge

Graph 1 below shows the present customer charge excluding the meter charges/rebates and the fit of the proposed new customer charge, both at May 2000 price levels.



The proposed new function has been derived so as to give the same average level of customer charges (excluding metering) as at present for each of the three main bands discussed below. The comparisons noted below are all on the charges at the same price level.

### Large I&C Loads (AQ>732 MWh)

The proposed new function gives customer charges very close to the existing customer charges less meter charges/rebates for almost all supply point sizes. The maximum charge

increase for any load is 1.5%. For the very smallest of these loads the charge will decrease by approximately 6%, otherwise the maximum decrease for any load is -1.8%.

#### **Small I&C Loads (73MWh<AQ<732MWh)**

The function parameters have been selected so as to retain an approximate £27 differential at the 732MWh boundary with the function for larger supply points and the same differential as at present (almost £4) between non-monthly and monthly read supply points. These differentials reflect the typical differences in administration costs for the different supply point groups, as established in the review of shipper service costs, PC43, which was implemented in October 1999 through revisions to the relative customer charge levels. The level and balance of these administration costs has been reviewed for this year and it is proposed to make no change to the manner in which they are reflected within the customer charge.

The greatest variation in the customer charge, from the present charges, is for loads of this size with increases and decreases of up to +-16%, but typically much smaller changes.

It is worth noting that a function with no relationship to load size would give charges closest, on average, to the present ones but such a function would introduce a much larger charge differential at the 732MWh per annum boundary, and so has not been proposed.

#### **Domestic Loads (<73MWh)**

Since the present meter rebate of £10 is identical to the present customer fixed charge, a new customer charge with the same customer commodity charge but no fixed charge gives identical charges to the existing ones. The step change in the level of the customer charge at the 73MWh per annum boundary reflects the structure of the present customer charge.

### **3. Impact of Proposed New Customer Charge**

The indicative level of the customer charge from October 2000 is 6.7% below the present level. The indicative new customer charge parameters have been uniformly scaled down from the fitted ones discussed above. Taking the 6.7% reduction into account the maximum percentage changes are +8% and -22%, both relating to supply points within the small I&C band. All domestic loads and virtually all large I&C loads would see decreases of, or close to, 6.7%.

#### **4. Indicative Functions for Application from October 2000**

##### **Up to 73.2 MWh per annum**

Commodity charge 0.1407 pence per kWh

(No fixed charge)

##### **73,2 MWh up to 732MWh per annum**

Fixed charge

Non-monthly read supply points 14.8226 pence per day

Monthly read supply points 15.7827 pence per day

Capacity charge 0.0017 pence per peak day kWh per day

##### **73.2 MWh per annum and over**

Capacity charge  $0.0360 \times (PL)^{-0.21}$  pence per peak day kWh per day

#### **QUESTION FOR CONSULTATION**

**Transco would welcome respondents' views on the proposed new customer charge functions.**