July 2000

TRANSCO CONSULTATION REPORT ON PC59

Review of LDZ Transportation Charge Functions

1. TRANSCO'S INITIAL PROPOSALS

Transco consulted on three proposals for implementation from 1st October 2000. The proposals were:

- To adopt the new low pressure system survey results for calculating LDZ charges.
- To base LDZ charges on a single log function rather than the present double log function.
  - in addition Transco asked whether the resulting new functions should be implemented in full from 1st October 2000 or phased in over two years.
- Should Transco adopt a separate charging basis for transportation to CSEPs ? If so, should the charges be set on the basis of the actual AQ, as at present, or the estimated maximum AQ and, if the latter is appropriate, what controls are needed to ensure that such a basis is both workable and not open to abuse ?

2. SUMMARY OF RESPONSES

In total there were 21 responses, 14 from shippers, four from consumers or consumer associations and two from connection businesses. One respondent wished their response to be unattributed (referred to as UR - unattributed respondent). The other respondents were:

Shippers	Alliance Gas	AGL
	British Gas Trading	BGT
	BP Gas Marketing	BPGM
	Eastern Group TXU	TXU
	Elf Gas and Power	EGP
	ExxonMobil	ExM
	Northern Electric and Gas	NE
	Npower	NP
	PowerGen	PG
	Scottish Power	SP
	Scottish and Southern Energy	SSE
	Shell Gas Direct	SGD
	Total Gas Marketing	TGM
	V-is-on	V-is
Consumers and Associations	Association of Energy Producers	AEP
	Corus	Corus
	Gas Consumers Council	GCC
	Major Energy Users Council	MEUC
Connection Businesses	British Gas Connections	BGC
	Elf Pipelines Ltd	EPL

2.1 Use of the new low pressure system survey

Transco's proposal was based on the results of the new, much larger, low pressure sub-tier survey in the LDZ analysis.

Most respondents that expressed an opinion (BGT,BPGM,TXU,NP,PG,SSE,V-is) agreed that the new LP survey results represented an improved basis for determining typical system use. ExxonMobil and the unattributed respondent asked for details of the survey to be provided. Three respondents (BGC, EGP, Corus) suggested that the lowest sub-tier (<100mm) should be further sub-divided as it accounted for a large proportion of the survey.

Transco's Response

Transco considers that the new survey results provide a good basis for determining typical LP sub-tier usage. Details of number of connections by loadband were included in Appendix 2 of PC59. Transco remains to be convinced that analysing the LP system with further sub-divisions would further the relevant objectives set out in the PGT Licence, but proposes to undertake additional analysis before putting forward further proposals for changing the structure of LDZ charges. Transco also considers that any refinement to the analysis should not be used as a reason to delay the partial rebalancing proposed for October 2000.

2.2 **Use of connection tier survey**

The AEP and the unattributed respondent questioned Transco's use of the connection tier survey from 1998, suggesting that this should have been updated.

Transco's Response

Transco believes that the survey carried out in 1998 is robust and that growth since then is unlikely to have significantly affected the results.

2.3 Form of LDZ charging function

Transco's proposal was to base LDZ charges on a single log function rather than the present double log function.

Of those expressing an opinion most (AGL, BGT, BPGM, TXU, ExM, NP, PG,) supported the proposal. Several respondents commented that the single log was not a perfect fit but an improvement on the log-log. Four respondents (AEP, BGT, EGP, UR) made the point that it was difficult for them to independently verify the proposed function because of a lack of data. EPL, BGT and SSE suggested different forms of function which they considered might be a better fit.

Transco's Response

Any relatively simple charging function is unlikely to provide a perfect fit to all the data points. Transco investigated various forms of function and concluded that the single log gave the best balance between complexity and cost-reflectivity. Transco will continue to monitor the fit to the data of the single log function and alternative functions as the analysis is refined and updated.

2.4 Phasing of new LDZ charging function

Transco's proposal was to move to the fully rebalanced capacity function and the interim commodity function from October 2000 and to move to the fully rebalanced commodity function from October 2001.

Nine respondents (AEP, BPGM, TXU, EGP, ExM, NP, SSE, TGM, V-is) broadly supported the proposed phasing. BGT did not support the phasing and argued that, in the interests of cost-reflectivity, full rebalancing should take effect from October 2000.

Transco's Response

Transco considers that in the interest of price stability, and in-line with the proposals set out last year, rebalancing should be phased in over October 2000 and October 2001

2.5 Fixing of domestic rate

BGC asked how fixing the domestic rate affected the shape of the function.

Transco's Response

Constraining the single log charging function to meet the fixed domestic rate at 73.2 MWh/annum does not materially affect the shape of the charging function.

2.6 Capacity:Commodity split and interruptible regime

The capacity:commodity split and interruptible regime did not form part of Transco's review but nine respondents (AEP, AGL, BPGM, Corus, TXU, EGP, ExM, TGM, V-is) expressed the view that it was inappropriate to undertake a review of LDZ charging without considering them.

Transco's Response

Transco considers that any change to the capacity:commodity split needs to be co-ordinated with possible changes to the interruptible regime. This is consistent with Ofgem's initial conclusions from their LDZ consultation.

2.7 Principle of separate charging to CSEPs

Of the seventeen respondents who commented specifically on charges for transportation to CSEPs, seven (AGL, TXU, ExM, NP, PG, SP, TGM) expressed support for a separate charging basis, six (BGC, BPGM, EGP, EPL, GCC, MEUC) expressed partial support for the proposals, and three respondents (AEP, BGT, SGD) were against the proposals. One respondent (NE) gave a neutral response:

- Six respondents (AGL, AEP, BGT, TXU, NP, SP) indicated that charging should be cost reflective. BGT and AEP however thought that it was still not appropriate to introduce separate charges for a specific customer class and BPGM were unsure why CSEPs had been singled out for review;
- Three respondents (AEP, BGT, SGD) thought that the proposals were discriminatory, and TXU expressed concern that the charges favoured a particular customer class;

- EGP, NP and PG stated that a separate charging function was appropriate if this was cost reflective;
- BPGM were not against the proposals but commented that they should be postponed until next year to be aligned with a more comprehensive review of LDZ charging, including the capacity/commodity split and interruption.

Transco response
Transco recognises the concerns regarding charging on the basis of separate classes of supply points. However, it considers that CSEPs are sufficiently different to other supply points to merit separate charges, based on an extension of the application of the standard LDZ charging methodology to CSEPs as a group.

2.8 SOQ used to determine charges to CSEPs

Five respondents (EGP, EPL, ExM, GCC, PG) commented that the LDZ charges to CSEPs should not be on the basis of the present AQ and that the final AQ of the connected system was more appropriate. PG added that this was only appropriate if the proposed methodology was not abused. EGP and EPL welcomed the removal of the use of the number of connections to generate unit rates

Transco response
Transco welcomes the support for the proposal to base LDZ unit rates on the maximum SOQ and to be independent of the number of connections to the CSEP.

2.9 Basis for structure of charges to CSEPs

EPL and SP commented that charges should be based on actual pressure tier or sub-tier to which the CSEPs are connected.
BGC and EPL stated that the analysis should be based on a further breakdown of the LP system.
EGP suggested that CSEP flows should have been used to generate the LP sub-tier costs.
BGC and EGP noted that the proposals did not include weighting for the size or numbers of downstream loads.

Transco response
Transco considers that it is appropriate to base the charges on the likelihood of connection to a particular tier for the size of supply point rather than the actual connection tier for consistency with the standard LDZ charges, and for the same reasons. In particular this ensures a simple approach is adopted which generates equivalent charges for equivalent loads regardless of the actual point of connection.

Transco agrees that it may be worthwhile refining the analysis in future to consider further breakdown of the LP tier. However, this possible refinement is not reason enough to delay the introduction of separate CSEP charges from October 2000.

It would not be appropriate to use CSEP flows alone in the analysis to generate pressure tier costs as the system is designed for all flows in aggregate.

The analysis does take account of the size of the connected load and the fact that MP-connected loads are on average larger than LP-connected loads. Since the analysis is split into many AQ loadbands, the larger MP-connected loads will be represented more in the larger AQ loadbands. Within a particular loadband there is no evidence that the MP-connected loads are significantly larger than the LP-connected loads.

2.10 Measures to prevent abuse of mechanism for separate charges to CSEPs

Two respondents (TXU and PG) commented on the need to prevent abuse of the methodology if the maximum AQ approach were adopted. TXU said that abuse should be prevented primarily through the network exit agreement between Transco and connected system operator and that checks and balances may be required through extended reporting. PG suggested that there should be a corrective charge if the AQ fails to match the maximum AQ.

Transco response

If the proposal to use the maximum AQ of the development to generate the LDZ unit rates is adopted then Transco intend to introduce control measures through the network exit agreement. Also, it would be Transco's intention to monitor the active AQ and the maximum AQ to ensure that they converge as planned. It is not intended to introduce corrective charging in the first instance but this will have to be considered along with a review of the use of the methodology if the system appears to be being abused.

2.11 Other aspects on the structure of charges to CSEPs

BGC stated that domestic load factors should not be applied to CSEPs.
TXU stated that a clear indication of the impact on the standard LDZ charges was required.
MEUC stated that similar sized I&C loads should also benefit from the reduced charge.

Transco response

PC59 included analysis on the appropriateness of using the standard domestic load factors for CSEPs consisting of domestic properties. No respondent other than BGC commented on this issue and no further evidence to justify any alternative has been proposed.

As stated in the consultation paper, the estimated impact of applying the proposed CSEP-specific charges rather than the standard charges is to reduce LDZ transportation revenue by about 0.5%. This was reflected in the indicative level of LDZ charges published on 26 May.

Transco's analysis suggests that CSEP-specific LDZ charges are appropriate because, as a group, CSEPs typically use less of Transco's system than similar-sized I&C loads.

3. TRANSCO'S FINAL PROPOSALS

The balance of the respondents' views was in favour of each of the changes proposed. Transco thus does not propose any changes from the original proposals. The final proposals are:

The new low pressure sub-tier survey is used as the basis of the charges.
The interim functions for implementation from 1 October 2000 are (at indicative October 2000 price levels):

Capacity	Pence per peak day kWh per day
Up to 73,200 kWh per annum	0.0480
73,200 kWh per annum up to 17,894,429 kWh per peak day	0.0736 – 0.0040 Ln (PL)
17,894,429 kWh per peak day and above	0.0068
Commodity	
Up to 73,200 kWh per annum	0.1269
73,200 kWh per annum up to 8,963,718 kWh per peak day	0.1990 – 0.0115 Ln (PL)
8,963,718 kWh per peak day and above	0.0149

The fully rebalanced functions for implementation from1 October 2001 are (at indicative October 2000 price levels)

Capacity	Pence per peak day kWh per day
Up to 73,200 kWh per annum	0.0480
73,200 kWh per annum up to 17,894,429kWh per peak day	0.0736 – 0.0040 Ln (PL)
17,894,429 kWh per peak day and above	0.0068
Commodity	
Up to 73,200 kWh per annum	0.1246
73,200 kWh per annum up to 16,620,846 kWh per peak day	0.1928 – 0.0107 Ln (PL)
16,620,846 kWh per peak day and above	0.0149

CSEPs
The functions to be implemented on 1 October 2000 for transportation within the LDZ to CSEPs are:

Capacity	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.0480
73,200 kWh per annum up to 5,513,594 kWh per peak day	0.0751-0.0044 x LN(PL)
5,513,594 kWh per peak day and above	0.0068
Commodity	
Up to 73,200 kWh per annum	0.1269
73,200 kWh per annum up to 2,942,402 kWh per peak day	0.2130-0.0133 x LN(PL)
2,942,402 kWh per peak day and above	0.0149

The peak load (PL) will be based on the maximum AQ i.e. the estimated AQ for the completed development as provided in the appropriate network exit agreement. The peak load will be independent of the number of connections (ISEPs) to the CSEP.