

TRANSCO CONSULTATION REPORT ON PC64

Amendment to the Use of the NTS Commodity Rate to Re-balance Auction Revenue

1. Transco's Initial Proposal

In PC64 Transco invited views regarding a possible amendment to the methodology by which the NTS commodity charge is used to balance deviations from target revenue caused by the NTS transportation service auctions. The consultation arose because the revenue from the Monthly Interruptible System Entry Capacity (MISEC) auctions held in late November takes Transco over the 10% threshold above which it has to reduce the standard NTS commodity charge. However the required adjustment is so small, of the order of 0.0002p/kWh, that Transco sought views on whether the introduction of a limit below which changes would not be made would be preferable to the expense and inconvenience of making very small changes. PC64 sought views on three main options. These were:

1. Do nothing – i.e. do not implement the present methodology in this case.
2. Implement the present methodology and reduce the NTS standard commodity rate.
3. Amend the present methodology to include a materiality qualification.

2. Summary

In total there were 15 responses:

Shippers or Suppliers	
Shell Gas Direct	SGD
BP Gas Marketing	BPGM
Dynergy	DY
Yorkshire Energy	YE
British Gas Trading	BGT
Conoco UK	CON
Powergen	PG
Aquilla Energy	AE
Scottish & Southern Energy	SSE
Northern Electric & Gas	NEG
TXU Europe Energy Trading	TXU
Industry	
Kemira Agro	KA
Corus	COR
ICI Chlor Chemicals	ICI
Association of Electricity Producers	AEP

Of the 15 respondents:

- One supported option 1(PG) but recognised that Licence requirements might mean Transco has to implement option 3.
- Eight supported option 2 (YE, TXU, SGD, AEP, DY, SSE, NEG, ICI).
- Four supported option 3 (CON, BPGM, BGT, AE).
- Two (KA, COR) suggested another option, namely that the relatively small additional over-recovery be rolled forward to the next set of auctions and included with any over-recovery from those auctions. Another respondent (CON)), made the same suggestion, although supporting option 3 of those offered in PC64.

3. Option 1 - Do nothing

Only one respondent (PG) supported this approach as a pragmatic approach to the problem, however this respondent also recognised that Licence requirements in terms of complying with the published charging methodology might mean Transco has to implement option 3.

Transco's Response

While option 1 is attractive from the point of view that it does not require any action or expense from Transco or shippers, it would potentially put Transco in breach of its Licence requirements to comply with the published transportation charging methodology. It would also, as stated by a number of respondents, lead to uncertainty within the community about the terms under which Transco transports gas.

4. Option 2 - Reduce the standard NTS commodity rate as required by present methodology

Eight respondents (YE, TXU, SGD, AEP, DY, SSE, NEG, ICI) supported this approach. All felt that Transco should comply with the charging methodology set out in the statement of Gas Transportation Charges from 1 October 2000. They stated that any other approach would damage confidence within the industry about the reliability of future charging statements. Three respondents (SGD, AEP, SSE) were of the view that the present methodology was such that the change in the level of the standard NTS commodity charge should apply from 1 December 2000 since that was the start date for the MISEC transportation service.

Transco's Response

The majority view of the responses received was to support option 2. Transco understands why this should be so, but is still concerned about the costs of making very small changes to the charges.

5. Option 3 - Amend the Present Methodology

This option was supported by four respondents (CON, BPGM, BGT, AE). Four other respondents (YE, SSE, AEP, TXU) expressed doubt about the need for such a methodological change, in view of the fact that the present situation was unlikely to arise again as in future MSEC and MISEC auctions will be held at about

the same time. One respondent (TXU) stated that there was no fundamental problem with the present methodology and that it was simply as a result of circumstances that the issue had arisen. The opportunity was also taken by another (AEP) to call for auctions to be held in sufficient time to allow for normal notice periods for changes to transportation charges in order to improve the sense of stability within the industry.

AEP also stated that the proposed amendment effectively widened the 10% band within which deviations from target revenue are dealt with through K and that this was contrary to Ofgem's expressed wish to see the band narrowed. In a similar vein three other respondents (NEG, KA, COR) expressed the view that all deviations from target revenue should be ring fenced within the NTS tier of transportation charges.

Transco's Response

Transco understands the doubts that have been expressed about the need for an amendment to the present methodology given that MSEC and MISEC auctions are planned to be held together in the future. However Transco is of the view that in the future other NTS services may be allocated by auction and that there is no guarantee that the implementation of such auctions will coincide with existing auctions. Also, while not necessarily a likely outcome, it remains possible that the existing methodology may imply the need to make only a minor change to charges if the revenue implication of auctions is only just beyond the present 10% threshold. For this reason Transco believes that it would be prudent to make the necessary methodological changes in advance.

Transco agrees that the amendment will effectively widen the 10% band but considers that the change is sufficiently small not to be a major concern.

6. Other Suggested Solutions

Three respondents (KA, COR, CON) suggested another option, namely that the relatively small additional over-recovery be rolled forward to the next set of auctions and included with any over-recovery from those auctions, thus creating an "auction pot". Two (SSE, CON) commented on the possibility of the MISEC over recovery being set against "buy back" charges. SSE rejected this as an option while the other (CON) said the option would benefit from further discussion within the community.

Transco's Response

Transco is of the opinion that the auction pot suggestion could be worth considering although it might reduce transparency with regard to the calculation of future price adjustments. There is also the issue of a deviation in one period not being returned in the next because the deviation in the next is inside the 10% band. With regard to setting auction revenue against "buy back" charges this would seem to be beyond the scope of the transportation charging methodology, requiring a Network Code modification were it to be implemented..

7. Conclusion

Transco welcomes the response to this consultation paper. While the responses contain a variety of views, Transco notes the view of eight out of fifteen respondents that the change in the NTS commodity rate required under the existing methodology should be made from 1 January. Some respondents would prefer the change to be back-dated to

1 December. The remaining seven respondents did not support applying the small change to the commodity rate which is implied by the present charging methodology but they did not all support any one alternative option.

8. Final Proposal

Following consultation Transco proposes to reduce the NTS standard commodity rate by 0.0002p/kWh to 0.0072p/kWh with effect from 1 January 2001.

This means there is no change to the existing methodology as the change in the charge is in line with the methodology established in PC60. The reduced notice period is covered by Network Code mod 0423 which granted a waiving of the notice period for adjustments based on PC60 in the period October 2000 to March 2001.