

TRANSCO CONSULTATION REPORT ON PC67

TECHNICAL ADJUSTMENT TO PC65 MECHANISM

1. Transco's Initial Proposal

In PC67 Transco sought views on a proposed technical amendment to the Transportation Charging Methodology established by PC65, such that the non-negativity condition is removed

This report sets out the views received and Transco's response.

2. Summary

There were six responses to the consultation paper.

Shippers & Suppliers	
BP Gas Marketing	BPG
British Gas Trading	BGT
Exxon Mobil Gas Marketing	MOB
Powergen	PG
Scottish & Southern Energy	SSE
Shell Gas Direct	SGD

- Five respondents supported the proposal (BPG BGT MOB PG SSE).
- One respondent (SGD) did not support the proposed amendment.

3. Detailed Responses

Two respondents (SGD SSE) expressed the view that the publication of this consultation paper illustrated the need for Transco to be more precise when setting out its Charging Methodology. One (SGD) stated that the Charging Methodology should be set out in the form of a contract along the lines of the Network Code. The same respondent was also of the view that this proposal did not improve the clarity of the methodology. The latter (SSE) along with another respondent (BPG) believed that the proposal did remove any confusion that existed between Transco's and Ofgem's interpretation of the final PC65 proposals.

Two respondents (SGD BGT) believed that the proposal altered the methodology under which bidders participated in the auctions after the event. On this basis the former did not support the proposal, while the latter did not see this as a valid reason for opposition in this particular case.

One respondent (PG) expressed disappointment that Transco had not taken the opportunity to address the issue of whether or not all excess revenue should be available to compensate for buy back costs from the beginning of the period.

One respondent (SGD) expressed the opinion that confusion remained with regard to the treatment of any excess that had not been refunded to the community at the end of the auction period to which the PC65 methodology applied.

Transco's Response

Transco does not believe that the Charging Methodology set out in PC65 lacked precision but notes that bidders in the recent auctions may have believed the mechanism would operate differently.

Transco considers that the possible differing interpretations of this aspect of the pricing methodology with regard to buy back associated rebates are unlikely to have had any major effect on bidding behaviour in the most recent set of auctions. Although ex-post changes to the Charging Methodology are in general undesirable, Transco is of the view that this technical amendment will better meet the intent of PC65 as set out in Ofgem's letter which indicated that the Authority did not intend vetoing the proposal.

Transco has concerns that making the total amount of excess revenue available from the beginning of the period covered by the recent auctions may create undesirable incentives within the existing entry capacity regime and, if in effect at the time of the recent auctions, could have led to changes in bidding behaviour. For these reasons, Transco considers that such a change would be undesirable at this time.

Transco believes that the mechanisms used to remove any excess revenue remaining at the end of the auction period are clearly established in the Charging Methodology. That is, it will be treated as any other transportation revenue and be included in the calculation of the K adjustment factor.

4. Conclusion

Despite the constraint of a limited consultation period, Transco welcomes both the comments and level of support received for the proposal contained within PC67. Transco therefore proposes that with effect from 1 October 2001 the Transportation Charging Methodology should be amended such that.

- **If auction implied revenue is above, but within 10% of, the target level, there will be no automatic offsetting adjustment to transportation charges;**
- **If auction implied revenue is more than 10% above the target level, Transco will calculate the level of this excess revenue;**
- **The excess revenue will then be divided by six in order to establish monthly amounts;**
- **For any month where the excess amount exceeds aggregate User buy-back costs, the excess amount for the following month will be increased by the amount by which the excess exceeds aggregate User buy-back costs; and**

- **Transco will reduce each User's entry capacity charges by a share of the lower of the excess or buy-back costs for the relevant month, with that share based on the proportion of aggregate MSEC held by the User concerned in the relevant month.**