

TRANSCO CONSULTATION REPORT ON PD3

Balance of Transportation Charges

1. TRANSCO'S INITIAL PROPOSAL

Transco's Pricing Discussion Paper PD3 explained that the indicative 1 October 1999 transportation charges were based on cost pools derived from Transco's ABC cost base for the year ending December 1998. The discussion paper set out the cost pools and compared the percentage breakdown to that used for the 1 October 1998 charges. The paper also provided a view of the rebalanced pricing tiers compared with the present structure and an analysis of the impact of the changes on the charges for typical loads.

The question for discussion was the degree of rebalancing of the main tier charges which should be implemented for October 1999.

2. SUMMARY OF RESPONSES

2.1 Transco received eight responses to this discussion paper, six from shippers and one each from an end user and an end user association.

Four shippers supported the rebalancing of the cost pools proposed in PD3. One shipper said they had no particular concerns about the proposal but raised a question about the way the asset based adjustment is done. The remaining shipper asked for some explanation and checking of some of the costs.

The end user association supported the proposal but the end user did not.

2.2 Comments Received

(1) One shipper questioned the application of the asset based adjustment on a pro-rata basis and suggested that it could be targeted in proportion to the value of the assets in that area.

(2) Because it disagreed with Transco's approach in a number of significant areas, particularly the lack of a proposal to change the capacity/commodity split, the results of the review of the LDZ charge functions and the lack of innovation in interruptible services, the end user did not agree with the rebalancing of charges between different groups of customers.

(3) One shipper questioned why a £61m credit to non-meter customer which had been in last year's equivalent to Table 1 seemed to have disappeared. They also asked for the £8m credit against Operating Margins to be checked and questioned whether it should be included in the calculation at all.

Transco's Response

(1) The asset based adjustment is done pro-rata to the value of the assets in the relevant area, as the shipper seems to be suggesting. This is explained in note [4] to Table 1.

- (2) Transco does not accept that the rebalancing should not take place because of concerns in other areas. Responses to those concerns are included in the relevant consultation reports.
- (3) The £61m credit in the 1998 paper consisted of non-daily meter reading costs which were allowed for under the cost-pass-through (CPT) provision in the price control formula and meter reading liability payments which are not on-going costs. The equivalent CPT figure in the 1999 paper is £28m (note [2] in Table 1), which is much smaller than the 1998 figure as the latter included the first quarter of 1997 which was before BGT meter reading was unbundled. Liability payments were omitted from Table 1 of PD3. For 1999 they are £5m compared with £15m in the 1998 paper.

The operating margins figure has been checked and is believed to be correct. The cost of operating margins is a cost of running the system and Transco can see no reason why it should be excluded.

3. SUMMARY OF FINAL PROPOSALS

Following consultation, the cost pools proposed as the basis for the 1999 charges have some minor changes from PD3 and consequently a revised version of Table 1 is set out below. Apart from the inclusion of liabilities in [2], the total target revenue of £2988m in PD3 has increased to £3017m as a result of revised volume forecasts.

Table 1: 1999 Pricing Cost Pools

	NTS	LDZ	Non-Meter Customer	Meter Work	Meter Reading	Total
	£m	£m	£m	£m	£m	£m
1998 ABC Costs [1]	242	770	370	232	39	1,653
NDM cost-pass through and Liabilities [2]					-33	-33
Mains Emergency Work		21	-21			0
Operating Margins [3]	-8					-8
Shipper Services	60	27	38			125
Unaccounted for Gas		42				42
Asset Based Adjustment [4]	196	740	200	102		1,238
Cost Pool Totals	490	1,600	587	334	6	3,017
1999 %	16.2	53.0	19.5	11.1	0.2	100
1997 % [5]	16.0	52.9		31.1		100

Notes:

- [1] The ABC costs shown exclude restructuring and decontamination costs to put the costs on to an ongoing basis. Shipper Services costs and UAG costs are excluded at this stage as they are added in to the cost pools using the pricing methodology.
- [2] The estimated amount allowed under NDM cost pass-through is excluded from the ABC costs as this amount is not recovered through the transportation charges. Liability payments are also excluded.
- [3] The Operating Margins adjustment shown is to deduct the cost of storage booking in 1998 of £28m and add the estimated cost of booking in 1999 of £20m.
- [4] The Asset Based Adjustment allocates the difference between the total adjusted ABC costs and the total target revenue (£3017m) across the cost pools pro rata to the assets attributed to each of those cost pools, with the exception of meter work where the adjustment is equal to 7% return on assets.
- [5] The October 1998 charges were not rebalanced and so reflect the same balance of costs used to determine the October 1997 charges.

Revised versions of Table 3, “Impact of New Prices for Typical Customers”, and Table 4, “Impact of Each Change in Derivation of Charges”, from PD3 consistent with Table 1 above are attached for completeness.