

## **TRANSCO CONSULTATION REPORT ON PD4**

### **Capacity/Commodity Split**

#### **1. TRANSCO'S INITIAL POSITION**

Discussion paper PD4 highlighted the issue of how the capacity/commodity split should be determined, prior to considering any further changes to the balance of LDZ or NTS transportation charges. At present, Transco's LDZ transportation charges are split 50/50 between capacity and commodity, while NTS transportation charges are split 65/35.

#### **2. SUMMARY OF RESPONSES**

In total there were fourteen respondents to the discussion paper, of which eight were from shippers, five from industry groups and one from a storage operator.

Rather than seeking to resolve the issue of the appropriate methodology to determine the capacity/commodity split, the majority of respondents focused upon their views of the appropriate capacity/commodity splits for both NTS and LDZ transportation charges. However, there were a number of helpful comments made on how this issue might be progressed.

Nine of the fourteen respondents supported an increased split between capacity and commodity charges on the NTS. Typical responses cited disappointment that Transco had not proposed a move to (at least) 75/25 for the NTS for October 1999.

One respondent stated that NTS charges were below marginal cost, which could lead to uneconomic investment. The respondent suggested therefore that NTS charges should be increased to marginal cost immediately.

Two respondents believed that neither NTS nor LDZ capacity/commodity splits should be changed at all this year, believing them either to be unjustified or unwise. Another respondent mentioned that further research was required before any move from a 50/50 split was made.

Three respondents specifically stated that the LDZ capacity/commodity split should be amended to be more cost-reflective, with one correspondent going so far as to say that the split should be nearer 100/0.

With regard to fundamental issue of the methodology that lies behind the capacity/commodity charging splits, five respondents highlighted that an updated methodology needs to be found. Four of these went on to suggest that Ofgas' Transportation Steering Group would be an appropriate forum in which to discuss this issue further.

#### **Transco's response**

Transco agrees with the respondents who suggested there is a need to establish an accepted methodology behind the capacity/commodity splits. This would be helpful before discussing the merits of a particular percentage split based on the evidence Transco has produced to date.

**3. TRANSCO'S FINAL PROPOSAL**

Transco does not propose to change the capacity/commodity splits for either of the NTS or LDZ transportation charges this year. It does, however, support the suggestion of encouraging the Ofgas Steering Group to discuss potential methodologies.