

## TRANSCO REPORT ON DISCUSSION PAPER PD11

### 2000 NTS Capacity Charge Re-balancing

#### 1. TRANSCO'S INITIAL PROPOSAL

Discussion document PD11 presented a proposal for re-balancing Transco's NTS capacity charges, which took account of Long Run Marginal Costs as estimated in both 1999 and 2000 by Transcost. Re-balancing was constrained to a maximum increase of 11% and maximum decrease of -10% for individual capacity charges. Transco sought views on the degree of re-balancing proposed for implementation from October 2000 and the level of any cap on increased charges and collar on decreased charges.

#### 2. SUMMARY OF RESPONSES

In total there were seven responses to this discussion paper

<b>Shippers</b>	Alliance Gas Ltd	AGL
	British Gas Trading	BGT
	BP Gas Marketing	BPGM
	PowerGen	PG
<b>Others</b>	Corus	COR
	Transco LNG Storage	TLNG
	Association of Electricity Producers	AEP

All of these responses supported re-balancing, although one (TLNG) felt that the data used was not as timely as it might have been.

## **2.1 Validity of LRMC Signal**

### **Comments Received**

One respondent (TLNG) suggested that the demand and supply match data used in the estimation of 2000 Long Run Marginal Costs, taken from the 1999 Ten Year Statement, has since been superceded by that published as part of Transco's Base Plan 2000 consultation process. In particular the respondent (TLNG) felt that unrealistic amounts of spare capacity in and around LNG sites were suggested by the 1999 demand and supply figures. The result was capacity charge movements at LNG sites which did not reflect the true long-term trend.

### **Transco's Response**

Transco seeks information from producers, shippers, marketers, major end users and other transporters to ensure that the supply and demand information used for planning and the calculation of LRMCs is as realistic as possible. The figures published as part of Transco's Base Plan 2000 consultation process are preliminary and may change following consultation with the industry.

### **Comments Received**

One respondent (AEP) wondered if the largest movements in particular charge levels could be regarded as one offs, or whether they were an indication of future trends.

### **Transco's Response**

The re-balancing methodology is such that individual charges only move in a particular direction if both sets of LRMCs used signal such a movement. Re-balancing can therefore be regarded to some extent as an exercise in trending. Despite this, however, a large movement in a particular direction in any one year should not automatically be regarded as indicating a future trend.

## **2.2 Appropriate of 65:35 Capacity Commodity Split**

### **Comments Received**

Three respondents (TLNG COR AGL) commented that they felt the present capacity commodity split was not truly cost reflective and that Transco should move towards a 90:10 split. They pointed out that Transco had previously proposed moving to a 75:25 split but that this proposal was vetoed by Ofgem, and wonder why such a proposal was not repeated in the present round of consultation papers.

## **Transco's Response**

Although Transco did not propose any change to the capacity commodity split, the proposals contained within PC60, if implemented, would in effect allow the market to determine the capacity commodity split.

### **3. TRANSCO'S FINAL PROPOSAL**

Transco is pleased with the level of support demonstrated for the re-balancing of NTS capacity charges from October 2000.

Transco proposes that NTS capacity charges be re-balanced using the process described in the discussion document. Thus where both the 1999 and 2000 LRMC results indicate a change in the same direction should be made, then the charge will be adjusted as appropriate. Re-balancing will be constrained to a maximum increase of 11% and maximum decrease of -10% for individual capacity charges.