December 2001

TRANSCO DISCUSSION REPORT ON PD14

Balance of Transportation Charges

1. TRANSCO'S INITIAL PROPOSAL

Transco's Pricing Discussion Paper PD14 explained that the April 2002 indicative charges were based on the proposed split of Transco's allowed transportation revenue between NTS and LDZs under the terms of the new price control. The split of the LDZ revenue recovery into LDZ system and LDZ customer was then based on cost pools derived from Transco's ABC cost base for the year ending December 2000. The paper also provided a table giving an analysis of the impact of the changes on the charges for typical loads.

Transco invited views on the approach described in the paper and the appropriateness of the degree of re-balancing of the transportation charges which should be implemented for April 2002.

2. SUMMARY OF RESPONSES

2.1 Transco received fourteen responses to this discussion paper, nine from shippers, one from an end user and one from and end user association, two from independent gas transporters and one from the Association of Independent Gas Transporters.

Shippers	Scottish and Southern Energy	(SSE)
	TXU Europe	(TXU)
	British Gas Trading	(BGT)
	BP Gas Marketing	(BPGM)
	PowerGen	(PG)
	Innogy	(INY)
	Shell Gas Direct	(SGD)
	Amerada Hess Gas	(AHG)
	Scottish Power	(SP)
End Users	Association of Electricity Producers	(AEP)
	Corus	(COR)
Other Gas Transporters	Association of Independent Gas Transporters	(AIGT)
	Scottish Power Systems	(SPS)
	TotalFinaElf	(TFE)

Most of the responses were broadly supportive of the proposals and accepted the reasons why they were being put forward.

3. LEVEL OF INDICATIVE CHARGES

3.1 Comments Received

One shipper (SSE) and the end user association (AEP) noted that based on the indicative charges many NTS sites would see an increase in exit capacity charges. However they accepted that this was due to the increase in the capacity element of NTS charges and that this would make the charges more cost-reflective. Another shipper (SP) noted the increases for large NTS sites were not equally distributed. Two shippers (AHG, SP) were concerned about the impact of the proposed rebalancing on small and medium sized businesses.

Two shippers (BGT, AHG) asked for an explanation as to why a 2% inflation factor rather than an RPI-X factor was applied in calculating the level of indicative charges.

One shipper (SP, said they did not understand why the removal of the 15% decrease led to a 17.6% increase.

The end user (COR) expressed disappointment that the LDZ capacity commodity split was still 50:50.

Transco's Response

The increase in NTS exit charges in the Indicative Charges is mainly due to the proposed increase in the proportion of target NTS revenue to be recovered through capacity charges, up from 65% to 78%. The increase in the exit capacity charges should therefore be considered in conjunction with the commodity charge reduction. The increases are not evenly distributed because they take into account rebalancing based on the latest Long Run Marginal Cost data. A full explanation of the process is given in Appendix B to PC71.

With respect to the indicative LDZ charges while the proposed changes to the LDZ charging function imply rises for some small and medium sized businesses this reflects additional data which suggests a certain degree of past under-estimation of the extent of the use of the system by these loads. The indicative charges within the firm industrial and commercial sector are based on a continuous function rather than charging bands.

The explanation for the use of the 2% inflation adjustment rather than 2%-X is because the RPI-X formula applies during the course of a five-year price control period, whereas what is being considered here is the establishment of the starting point for a five year period. Efficiency savings are already taken into account by Ofgem in determining the level of the starting point.

The reason why the removal of the 15% decrease leads to a 17.6% increase is a purely arithmetical one. From a starting point of 100, a reduction of 15% gives 85, but to return to 100 from a staring point of 85 requires an increase of 17.6%.
With respect to the LDZ capacity:commodity split no new information has been available that might support a change and so no change has been proposed. Transco has

previously said that it would be desirable for any change to the capacity: commodity split to be co-ordinated with possible changes to the interruptible regime.

4. TREATMENT OF OVER-RECOVERY

Comments Received

One shipper (TXU) agreed the proposals were in line with the price control proposals but questioned how any over- or under-recovery would be carried forward. It also commented that the balance of charges could not be finalized without knowing the final exit regime proposals. Another shipper (SSE) also asked about the treatment of over- or under-recovery.

Transco's Response

The treatment of under- or over-recovery under the new price controls remains to be agreed and the Licence conditions dealing with this have not yet been published so it is too early to be clear how it will be treated.

Discussions on the exit regime are continuing but Transco does not believe this justifies seeking to delay setting the charges to apply from 1 April. Under the Network Code required timescales Transco is obliged to give notice of these charges by 1 February, although transportation charges may need to be reviewed in the light of other developments. .

5. ADDITIONAL INFORMATION

5.1 Comments Received

One Shipper (PG) asked for more information on the NTS/LDZ allowed revenue split and another (SGD) suggested that Transco publish the disaggregated impact analysis table which has been published in previous years.
One shipper (INY) – supported changes which improved cost reflectivity, but felt there was limited data available to evaluate the allocations, and suggested that the cost allocations should be reviewed and possibly audited.

5.2 Transco's response

More details of the NTS/LDZ split are contained in the Ofgem document "Review of Transco's Price Control from April 2002 – Final Proposals" available from the Ofgem website (www.ofgem.gov.uk). The disaggregated impact analysis requested is published at the end of this paper. As explained in PD14, the cost allocations used are based on Transco's Transaction Model, itself a development of the ABC model, which was used to provide cost information for the Periodic Review. As part of the Periodic Review process the Transaction Model was subject to independent audit and scrutiny.

6. CSEP ADMINISTRATION CHARGE

6.1 Comments received

Three respondents (TFE, SP and SPS) referred to the CSEP Administration Charge. Two, (TFE and SPS) argued that the charge should be eliminated. The third, (SP), asked for an explanation of the basis for the continuation of the charge.

6.2 Transco's Response

The charge is constructed on forward looking costs of CSEP administration processes over a period of time together with a forecast of the average number of premises within CSEPs over that period. Transco reviews these forecasts on a regular basis and adjusts the charge as appropriate. The level of the charge can be changed without a consultation if it does not involve a change in methodology. The processes covered by the charge and the reasons for its introduction and continuation have been described in the consultation papers on the CSEP administration charge, namely PCs 2, 14, 29 and 46.

7. SUMMARY OF FINAL PROPOSALS

Following consultation, it is proposed to make no change to the degree of re-balancing proposed for the transportation charges set out in PD14. Table 3 from PD14 showing the changes in the balance of transportation charges is shown below.

Table 1 (Table 3 from PD14): Changes in Balance of Transportation Charges – Effective from 1 April 2002

	A	B	C
	2000 Cost Pools Split %	New Price Control Split %	Percentage Rebalancing Change (B/A)
NTS	19.1	19.5	+2.1%
LDZ System	57.4	57.1	-0.5%
LDZ Customer	23.5	23.4	-0.4%
Total	100	100	0%

Table 4 from PD14 showing the impact of the proposed changes on typical supply points is shown below. The figures are based on the indicative charges published in PD14 and the impacts based on the final charges to be published on 1 February will not necessarily be exactly the same.

Table 2 (Table 4 from PD14)- Impact of the PD14 Indicative Charges to Shippers for Typical Supply Points -

		AQ MWh	Pence / kWh April 01	April 02	Change	%
Domestic	Small	8.50	0.4614	0.4593	-0.0021	-0.5%
	Medium	19.00	0.4615	0.4597	-0.0018	-0.4%
	Large	30.00	0.4610	0.4591	-0.0019	-0.4%
LDZ	Firm	150	0.3539	0.3517	-0.0022	-0.6%
	Industrial &	600	0.2945	0.3253	0.0308	10.5%
	Commercial	1,500	0.2602	0.2764	0.0162	6.2%
		3,000	0.2353	0.2409	0.0056	2.4%
		6,000	0.2184	0.2172	-0.0012	-0.5%
		30,000	0.1670	0.1596	-0.0074	-4.4%
		150,000	0.1247	0.1197	-0.0050	-4.0%
LDZ	Interruptible	15,000	0.1040	0.0982	-0.0058	-5.6%
		30,000	0.0960	0.0894	-0.0066	-6.9%
		150,000	0.0778	0.0729	-0.0049	-6.3%
NTS	Firm	6,000,000	0.0371	0.0356	-0.0015	-4.0%
	Interruptible	6,000,000	0.0294	0.0272	-0.0022	-7.5%

In response to the request to publish a table showing the disaggregated impact of the proposed changes, this is shown below. These figures are again based on the indicative charges.

Table 3 Disaggregated Impact of the PD14 Indicative Changes

		AQ MWh	Per cent changes NTS	LDZ	Other[1]	Total
Domestic	Small	8.50	0.25	-0.56	-0.16	-0.46
	Medium	19.00	0.29	-0.52	-0.15	-0.39
	Large	30.00	0.27	-0.53	-0.15	-0.41
LDZ	Firm	150	0.44	-0.96	-0.09	-0.61
	Industrial &	600	0.52	9.98	-0.04	10.46
	Commercial	1,500	0.44	5.78	0.01	6.22
		3,000	0.37	2.09	-0.09	2.37
		6,000	0.39	-0.97	0.05	-0.53
		30,000	0.09	-4.68	0.14	-4.44
		150,000	-0.36	-3.97	0.27	-4.06
LDZ	Interruptible	15,000	-2.54	-3.18	0.15	-5.58
		30,000	-2.75	-4.31	0.19	-6.88
		150,000	-3.40	-3.22	0.32	-6.30
NTS	Firm	6,000,000	-5.51	0.00	1.51	-4.00
	Interruptible	6,000,000	-8.99	0.00	1.51	-7.48

1. "Other" includes changes to the customer charges and the change in the level of charges, both of which are relatively small.