

TRANSCO PRICING DISCUSSION PAPER PD16

Balance of Transportation Charges and Indicative Charges from April 2003

1. INTRODUCTION

The indicative transportation charges proposed for implementation on 1 April 2003 are based on the separation of the transportation price control into separate price controls for the LDZs and for the NTS, and within the NTS separate controls for the Transmission Asset Owner (TO) and System Operator (SO) which had effect from 1 April 2002.

The paper shows the indicative transportation charges for April 2003 and provides an analysis of the impact of the changes to the charges on a range of typical loads.

The indicative charges from April 2003 are shown in Appendix 1.

2. LEVEL OF ALLOWED REVENUE

The revised Licence conditions implementing the separation of the transportation price control and particularly the SO incentive mechanism have only recently been finalised. This has clarified the basis of the allowed revenue particularly for NTS SO.

The table below shows Transco's estimate of allowed transportation revenue for the NTS and the LDZs for 2003/04 compared to the latest estimate of allowed revenue for 2002/03.

Table 1: NTS and LDZ Estimated Allowed Revenue

	Formula Year 2002/03 £m	Formula Year 2003/04 £m
NTS TO	405	382
NTS SO	196	209
Total NTS	601	591
LDZ	2082	2122
Total Transportation	2683	2713

The reduction in NTS TO Allowed Revenue in 2003/4 is mainly due to forecast over-recovery carried forward from 2002/3, while the increase in SO Allowed Revenue is due to a forecast under-recovery carried forward. The increase in LDZ Allowed Revenue is due almost equally to a forecast increase in core revenue and a forecast reduced negative replacement expenditure adjustment.

3. INDICATIVE CHARGES

3.1 NTS SO Charge

Notice is being given separately of an increase in the level of the NTS SO standard commodity charge to take effect from 1 January 2003. It is not intended to make any further change to the level of this charge on 1 April 2003. The reason for the January increase is that it has recently become clear that there is likely to be a substantial under recovery of system operation revenue in the current formula year. The increase does not remove all of this forecast under recovery in the present formula year, but it does represent an increase to a level that on the basis of current projections should be sustainable through to 2004 and so provide stability in the level of this charge.

3.2 NTS TO Charges

The target level of TO revenue for 2003/4 is forecast to be 5.7% lower than for 2002/3. This target is split 50/50 between entry and exit revenue, as at present, and so the forecast target level for TO entry revenue is £191m, 5.7% lower than for 2002/3.

Indicative TO entry capacity reserve prices have been set on the basis of this lower target revenue and of the changes to the methodology for setting entry capacity reserve prices proposed in PC76.

The TO exit charges were reduced by 24% in July 2002 to bring the forecast TO exit revenue into line with the forecast level of TO Allowed Revenue for 2002/3. Since that reduction was made partway through the year, the reduction was greater than if it had been made at the start of the formula year (April), leaving the present level of exit charges below the average level required for 2002/3. Taking account of the lower TO target for 2003/4, it is estimated that a 2% increase in NTS TO exit capacity charges from April 2003 will be required. It is estimated that this change offers - subject to auction impacts - a period of stability in exit charges with possibly no further changes before 2004.

PC76 outlines a possible change to the methodology for determining the exit charges for each exit zone but it is proposed that the present balance of exit charges be retained at present. The indicative exit charges for implementation from April 2003 are thus the present exit charges increased by 2% throughout (subject to rounding).

3.3 LDZ Charges

LDZ allowed revenue is recovered mainly through two types of charge, LDZ system charges (capacity and commodity charges) and the LDZ customer charge. The share of the allowed revenue to come from each type of charge reflects the relative costs of the services provided. Transco's ABC model has in the past provided the basis for this methodology but last year, in order to ensure consistency with the Periodic Review, the cost pools were based on the Transactions model that was used to provide cost information for the Periodic

Review. The Transactions model itself is a development of the ABC model. Again to maintain consistency the same approach has been used this year.

The cost model includes operating costs and depreciation, but not return on assets, and so a return element based on asset values is added in each cost pool category. This asset based adjustment is scaled so that the final cost pools sum to the target allowed revenue. The resulting percentage breakdown, used as the basis for the assessing the level of the indicative charges for April 2003, is set out below. The previous year is shown for comparison.

Table 2: LDZ Cost Pool Breakdown Percentage

Year	LDZ System	LDZ Customer	Total LDZ
2002	70.9	29.1	100
2003	71.8	28.2	100

Present LDZ charges are consistent with both the estimated levels of allowed revenue for the remainder of 2002/3 and 2003/4 and the percentage split of revenue recovery shown in Table 2 and therefore no changes to the main LDZ charges are being proposed at this time. The indicative LDZ charges are therefore the same as the present charges.

3.4 Other Charges

The levels of the administration charges to do with allocation arrangements are being revised to maintain their cost reflectivity. These changes are not being consulted on because the methodology is unchanged.

4. ANALYSIS OF THE IMPACT OF THE CHANGES BY CUSTOMER

The impact of the proposed changes to transportation charges is shown in Table 3 below. The proposed April 2003 charges are compared with the October 2002 level of charges.

Table 3: Impact of Proposed Charges associated with Typical Supply Points

		AQ MWh	Pence / kWh			
			Oct 02	April 03	Change	%
Domestic	Small	8.50	0.4598	0.4638	0.0040	0.9%
	Medium	19.00	0.4590	0.4630	0.0040	0.9%
	Large	30.00	0.4588	0.4627	0.0039	0.8%
LDZ	Firm Industrial & Commercial	150	0.3511	0.3551	0.0040	1.1%
		600	0.3246	0.3286	0.0040	1.2%
		1,500	0.2763	0.2803	0.0040	1.5%
		3,000	0.2413	0.2452	0.0039	1.6%
		6,000	0.2173	0.2212	0.0039	1.8%
		30,000	0.1601	0.1639	0.0038	2.4%
		150,000	0.1215	0.1252	0.0037	3.1%
LDZ	Interruptible	15,000	0.1044	0.1078	0.0034	3.3%
		30,000	0.0954	0.0988	0.0034	3.6%
		150,000	0.0787	0.0821	0.0034	4.3%
NTS	Firm	6,000,000	0.0391	0.0426	0.0035	8.9%
	Interruptible	6,000,000	0.0328	0.0362	0.0034	10.4%

5. CHARGING FOR SPECIFIC SERVICES

The majority of Transco's transportation income comes from the main transportation charges. However some shippers require specific services which are not required by others. Consistent with its GT Licence requirements, Transco believes it is appropriate to levy specific cost-reflective charges for these services.

The income from these charges for specific services is included as part of the regulated transportation income.

The methodology for deriving these charges was described in the paper "Charging for Specific Services - Cost Assignment Methodology" published by Transco in May 1999. It is not intended to re-publish this paper as the methodology has not changed but it can be viewed on Transco's web site [www.transco.uk.com - Our Publications - Pricing Publications - Archive of Consultation Papers].

The only uplift used in the derivation of charges for specific services within transportation is the uplift relating to office based activities. In the April 2002 indicative charges this was 238% based on the 2000 costs but following a review based on the 2001 costs this has now come down to 215%.

The uplift is applied to direct salary costs to arrive at the full cost of providing a specific service.

QUESTION FOR DISCUSSION

Transco would welcome respondents' views on the approach described in this discussion paper.

INDICATIVE TRANSPORTATION CHARGES FOR 1 APRIL 2003

Table 1 : Pricing Tier Average Changes from October 2002 Price Level

NTS Charges	8.0%
LDZ System Charges	0%
LDZ Customer Charges	0%
Average	1.5%

Table 2 : Indicative NTS (TO) Exit Capacity Charges - April 2003

Capacity Charges pence / peak day kWh / day			Capacity Charges pence / peak day kWh / day		
Exit LDZ	EA1	0.0024	Exit - NTS	AM Paper	0.0029
	EA2	0.0086		Baglan Bay PG	0.0177
	EA3	0.0031		Barking PG	0.0095
	EA4	0.0093		BASF Teesside	0.0001
	EM1	0.0026		BP Grangemouth	0.0001
	EM2	0.0006		BP Saltend (HP)	0.0008
	EM3	0.0066		Bridgewater Paper	0.0083
	EM4	0.0053		Brigg PG	0.0005
	NE1	0.0001		Brimsdown PG	0.0102
	NE2	0.0017		Brunner Mond	0.0029
	NE3	0.0008		Connahs Quay PG	0.0083
	NO1	0.0001		Corby PG	0.0038
	NO2	0.0007		Coryton PG	0.0072
	NT1	0.0175		Cottam PG	0.0005
	NT2	0.0114		Deeside PG	0.0083
	NT3	0.0126		Didcot PG	0.0131
	NW1	0.0071		Great Yarmouth PG	0.0024
	NW2	0.0063		Hays Chemicals	0.0029
	SC1	0.0001		ICI Runcorn	0.0085
	SC2	0.0009		Keadby PG	0.0001
	SC4	0.0001		Kemira Ince	0.0085
	SE1	0.0093		Kings Lynn PG	0.0023
	SE2	0.0175		Kingsnorth PG	0.0075
	SO1	0.0121		Little Barford PG	0.0047
	SO2	0.0166		Longannet PG	0.0001
	SW1	0.0068		Medway PG	0.0075
	SW2	0.0130		Peterborough PG	0.0023
	SW3	0.0257		Peterhead PG	0.0001
	WA1	0.0091		Phillips Seal Sands	0.0001
	WA2	0.0156		Rocksavage PG	0.0085
	WM1	0.0055		Roosecote PG	0.0019
	WM2	0.0060		Rye House PG	0.0102
	WM3	0.0066		Saltend PG	0.0008
				Sappi Paper Mill	0.0071
				Seabank PG	0.0120
				Sellafield PG	0.0019
				Shotton Paper	0.0083
				Stallingborough PG	0.0008
				Staythorpe PG	0.0023
				Sutton Bridge PG	0.0016
				Teesside Hydrogen	0.0001
				Teesside PG	0.0001
				Terra Billingham	0.0001
				Terra Severnside	0.0124
				Thornton Curtis PG	0.0005
				Zeneca	0.0001
			Exit -	Bacton I/C	0.0024
			Interconnectors	Moffat I/C	0.0001
			Exit - Storage	Hornsea X	0.0008
			Sites	Isle of Grain X	0.0075
				Hatfield Moors X	0.0001
				Hole House Farm X	0.0029
				Rough X	0.0008
				Avonmouth X	0.0120
				Dynevor Arms X	0.0156
				Glenmavis X	0.0001
				Partington X	0.0029
CLNG Credit pence / registered peak day kWh / day					
Entry - CLNG	Avonmouth	0.0116			
	Dynevor Arms	0.0000			
	Isle of Grain	0.0023			

Table 2 (cont) : Indicative Entry Capacity Reserve Prices - April 2003

All values : p / kWh / day		Reserve Prices April 2003	
		MSEC	DSEC
Entry - Beach	Bacton	0.0056	0.0037
	Easington / Rough	0.0011	0.0007
	Theddlethorpe	0.0010	0.0007
	St Fergus	0.0198	0.0132
	Teesside	0.0018	0.0012
	Barrow	0.0004	0.0003
Entry - Onshore Fields	Hatfield Moors	0.0013	0.0009
	Wytch Farm	0.0000	0.0000
	Caythorpe	0.0021	0.0014
	Burton Point	0.0001	0.0001
	Hole House Farm	0.0001	0.0001
Entry - Storage	Hornsea	0.0047	0.0031
	Glenmavis	0.0165	0.0110
	Partington	0.0003	0.0002
	Aldbrough	0.0018	0.0012
Entry – Constrained LNG	Avonmouth	0.0020	0.0013
	Dynevor Arms	0.0000	0.0000
	Isle of Grain	0.0058	0.0039

Table 3 : Indicative NTS (SO) Commodity Charges - April 2003

Commodity Charges pence / kWh	
Standard	0.0177
St Fergus Compression	0.0052
Optional	$1203 * (PL^{0.834}) * D + 363 * (PL^{0.654})$

Table 4 : Indicative LDZ Charges - April 2003

Directly Connected Supply Point Charges		
MWh pa	Commodity pence / kWh	Capacity pence / peak day kWh / day
< 73.2	0.1268	0.0474
73.2 – 732	0.1172	0.0440
> 732	$0.7272 * PL^{-0.2121}$	$0.2088 * PL^{-0.1806}$
Subject to minimum rate of	0.0110	0.0048

Connected System Exit Point Charges		
MWh pa	Commodity pence / kWh	Capacity pence / peak day kWh / day
< 73.2	0.1268	0.0474
73.2 – 732	0.1172	0.0440
> 732	$0.6940 * PL^{-0.2131}$	$0.2208 * PL^{-0.1939}$
Subject to minimum rate of	0.0110	0.0048

Optional LDZ Charge pence / peak day kWh / day	
Optional	$902 * (PL^{0.834}) * D + 772 * (PL^{0.717})$

Table 5 : Indicative Customer Charges - April 2003

Single Supply Point Customer Charges				
MWh pa	Commodity pence / kWh	Capacity pence / peak day kWh / day	Fixed pence / supply point / day	
			Read Frequency	Charge
< 73.2	0.1411			
73.2 - 732		0.0017	Non – monthly Monthly	14.8742 15.8377
> 732		$0.0361 * (PL) ^{-0.21}$		

Connected System Exit Point Admin Charge	
pence / supply point / day	0.3836 (£1.40 pa)

Definitions

Term	Definition
D	Direct distance (km) from site or non Transco pipeline to terminal (Optional NTS Tariff)
D	Direct distance (km) from site to an NTS pipeline (Optional LDZ Tariff)
PL	Registered supply point capacity in kWh's
^	To the power of

OTHER CHARGES

System balancing charge

A system balancing commodity charge will be added to the standard NTS commodity charge as at present. For shippers operating wholly under Network Code arrangements the charge will be zero.

Shared supply meter point allocation arrangements

Transco offers an allocation service for daily metered supply points with AQs of more than 58,600 MWhs per annum. This allows up to four (six for VLDMCs) shippers/suppliers to supply gas through a shared supply meter point.

The allocation of daily gas flows between the shippers/suppliers can be done either by an appointed agent or by Transco. The administration charges which relate to these arrangements are shown below. Charges depend on whether the site is telemetered or non-telemetered.

Charges are per shipper per supply point.

Agent Service	Telemetered	Non-telemetered
Set-up charge	£107.00	£183.00
Shipper-shipper transfer charge	£126.00	£210.00
Daily charge	£2.55	£2.96

Transco Service	Telemetered	Non-telemetered
Set-up charge	£107.00	£202.00
Shipper-shipper transfer charge	£126.00	£210.00
Daily charge	£2.55	£3.05

Allocation arrangements at Interconnectors

The following allocations charges apply at both interconnectors and apply for each supply point. Allocating daily gas flows between shippers/suppliers can be done either by an appointed agent or by Transco. The same set up charge applies in either case. There is also a daily charge that depends on whether the service is provided through an agent or not:

	Set up charge per shipper	Daily charge per shipper
Agent service	£141.70	£1.62
Transco service	£141.70	£2.46

Administration charges at Moffat

The following administration charges apply only to the GB-Ireland interconnector at Moffat. The charges, which vary if the service is provided via an agent or Transco, are:

	Daily charge per shipper
Agent service	£15.08
Transco service	£30.16

The charges with or without an agent cover the operation of the flow control valve. In addition the Transco service provides the Exit Flow Profile Notice (EPN).

In the event that the appointed agent fails to provide an EPN to Transco the following additional charge will apply:

EPN Default Charge per shipper per event £0.63

Must reads

If a shipper is unable to provide meter readings in compliance with the Network Code, then Transco may initiate processes to obtain a meter read, referred to as a 'must read'. A charge will be made for each must read and will depend on the number of meters at a supply point requiring a must read at the same time. If there is one meter at the supply point the charge will be £40, for two meters the charge will be £60 and for three or more meters the charge will be £80. These charges are based on the typical cost of such reads which may include multiple visits to the site and obtaining and executing a warrant of entry.

Opening read estimates

Incoming shippers are required by the Network Code to provide an actual opening meter read to Transco within a window around the date that the supply point transfers. If no read is provided within the period, Transco is required to provide an estimated reading. In respect of supply points with an annual consumption of up to 73,200 kWh, a charge of £1.13 applies for each estimate provided, where an individual shipper's opening read performance has fallen below 90% in any month.