December 2002

TRANSCO DISCUSSION REPORT ON PD16

Balance of Transportation Charges

1. TRANSCO'S INITIAL PROPOSAL

Transco's Pricing Discussion Paper PD16 explained that the April 2003 indicative charges were 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 set out Transco's estimate of allowed revenue for 2003/04 for NTS TO and SO and the LDZs and explained the movement in the levels of the TO and SO charges. 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.

2. SUMMARY OF RESPONSES

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

Shippers	ConocoPhillips	(CP)
	Scottish and Southern Energy	(SSE)
	British Gas Trading	(BGT)
	AEP Energy Services	(AEP)
	Innogy	(INY)
	Shell Gas Direct (SGD)	
	Statoil	(STO)
	Scottish Power	(SP)
End Users	Association of Electricity Producers	(ASSEP)
	Corus	(COR)

Most of the responses were broadly supportive of the proposals but several of them asked for more information on the reasons behind some of the changes in the levels of the charges.

3. NT&T CHARGES

3.1 Level of Charges

Comments Received

Several shippers (CP, SSE, SP, STO,AEP) and the end user association (ASSEP) either requested more information on the reasons for the forecast under-recovery of SO revenue and the forecast over-recovery of TO revenue, or commented that such information would have been helpful. AEP in particular commented that without more information on over- and under-recovery it was difficult for companies to consider whether Transco was complying with its licence obligations in relation to setting charges. They and another shipper (STO) stated that without such information it was difficult to have confidence about how stable the proposed level of charges would be and they, along with other respondents (CP, AEP, ASSEP), were concerned about the movement of allowed revenues between years due to over- or under-recoveries.

One shipper (SGD) queried the extent to which the SO under-recovery was due to the failure to apply the commodity charge to storage flows and asked whether the new level of the charge assumed that storage flows would attract the SO commodity charge. Another shipper (INY) was concerned about the impact of the increases in the SO commodity charge on interruptible loads and made a similar point asking whether the failure to apply the commodity charge to storage flows would lead to a recalculation of the SO commodity charge. The same shipper asked for an explanation of the methodology proposed to split the SO commodity charge between entry and exit from 1 October 2003.

Transco's Response

The forecast under-recovery of SO revenue for 2002/03 is due to a combination of factors. The main factors are that the commodity charge has not been applied to all throughput to storage exit points, whereas this application was assumed in setting the commodity rate, and that the forecast allowable SO revenue has increased. In setting the new level of the SO commodity charge, applicable from January 2002, it has been assumed that the present position continues, i.e. that not all throughput to storage exit points attracts the commodity rate. Transco will be making further information available on the SO allowed costs following implementation of Network Code Modification Proposal 576.

The forecast over-recovery of TO revenue for 2002/03 is due to the reduced forecast of the level of rebates under the PC65 mechanism for 2002/03 based on actual rebates to date. It is now forecast that these rebates over the year will be less than the level of excess auction revenue, so giving forecast TO over-recovery for the year. This is, however, subject to significant uncertainty since it is dependent on the actual costs which will be incurred to buy-back entry capacity rights in the remainder of the present formula year.

Transco agrees that it is desirable, in the absence of other concerns, to aim to recover the allowed revenue for a year within the same year and so minimize the movement of allowed revenue from one year to the next. However, where this might require substantial or frequent changes to the level of charges the disbenefit of such changes must also be considered. Transco expect to bring forward a paper shortly that will invite views on the issue of how, and at what frequency, transportation charges should be set and changed.

The methodology for splitting the SO commodity charge between entry and exit from 1 October 2003 is as set out in PC73, namely that the same commodity rate will be applied at both entry and exit. From October 2003, Transco's intention is therefore to set the commodity charge rate at half the present level

3.2 Stability of charges

Comments received

Most respondents (CP, INY, BGT, SSE, ASSEP, SP, STO, SGD) specifically supported the proposals to try to maintain more stability in the transportation charges or that charges should be changed only annually. One shipper, (STO) would have liked further information as to why Transco felt it would not need to change the new SO commodity charge.

Transco's Response

Transco welcomes the widespread support for the proposal to try to maintain more stability in the transportation charge levels. In setting the level of the SO commodity charge rate from 1 January 2003, Transco has allowed for some uncertainty in the forecast levels of allowed and collected revenue, so that the SO commodity rate should not need to be changed in the event of minor changes to these forecasts.

3.3 Capacity/Commodity split

Comments received

The end user (COR) expressed disappointment that there was no review of the capacity commodity split, either for the NTS or the LDZ. They would also have liked the increase in the SO commodity charge scheduled for January to be delayed till 1 April.

Transco's Response

Since April 2002, the capacity commodity split for the NTS charges is determined from the split of allowed revenue for the TO and SO. Transco will keep the charging arrangements in respect of the TO and SO revenue under review to ensure that the methodology best meets the required Licence objectives.

Delaying the SO commodity charge increase from January to April would have meant that the charge increase would have needed to be greater and would have increased the forecast level of under-recovery for SO revenue for this formula year, so transferring a larger level of allowed revenue from one year to the next.

4. LDZ CHARGES

Comments Received

One shipper (INY) expressed disappointment that Transco had not reviewed the LDZ and CSEP charging functions. They were of the opinion that the CSEP function in particular was mis-specified.

The end user (COR) expressed disappointment that the LDZ capacity commodity split had not been reviewed and was still 50:50.

The end user association (ASSEP) commented that with the current LDZ charging functions the minimum charges only applied to such large loads that it was doubtful such loads existed on the system.

Transco's Response

The derivation of the LDZ and CSEP charging functions was fully explained in PC68 and the Consultation Report and additional information on the statistical analysis was supplied to shippers or IGTs who requested it. Transco is of the opinion that the functions fairly reflect the use of the LDZ system by loads of different sizes at the present time and that there is no immediate need to review them. They will be reviewed in the future to ensure that they remain cost reflective.

There is no new evidence available that would warrant changing the existing 50:50 capacity commodity split and thus no change is being proposed at this time. Transco has also previously stated that it would be desirable for any change to the capacity:commodity split to be coordinated with possible changes to the interruptible regime.

The minimum charges are shown in the Transportation Statement to show the limit of the functions irrespective of whether there are actually any loads of that size on the LDZ networks.

5. SUMMARY OF FINAL PROPOSALS

Following consultation, it is proposed to make no change to the indicative charges set out in PD16. Table 3 from PD16 which sets out the impact of the indicative charges on typical loads across a range of supply point sizes is reproduced below for information.

While indicative charges were published on 1 November, final charges to apply from 1 April 2003 will be confirmed by 1 February 2003, consistent with the notice period required by the Network Code.

Table 1 (Table 3 from PD16): 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%