

TRANSCO PRICING DISCUSSION PAPER PD8

Change to the Means of Calculating the LDZ Commodity Unit Rate for the Reconciliation of Smaller Supply Points within LDZ Connected Systems via RbD

SUMMARY

This paper describes Transco's proposal for changing the means by which the applicable LDZ commodity unit rate is derived for the purpose of charging for the transportation element of reconciliation in respect of smaller supply points within LDZ Connected Systems (those with individual AQs of less than 73,200 kWh).

This proposal is intended as a practical measure to enable the successful implementation of Network Code Modification proposal 0216, and has been generated as a result of a recommendation made by the Network Code Modification proposal 0216 Development Workgroup.

The implementation of this Modification will mean that smaller supply points within connected systems are reconciled in aggregate via the Reconciliation by Difference (RbD) process. **The proposal is that for the purpose of charging for the transportation element attributable to any reconciliation variance in respect of smaller supply points within LDZ connected systems, the unit rate for the LDZ commodity component should be determined on the basis of an average CSAQ and SOQ for the NDM CSEP population, as recorded at a given point each year, and by reference to the transportation charges effective at the time.**

(Please see also the accompanying paper, PD7, which proposes a change to the process for calculating LDZ capacity and LDZ commodity unit rates in respect of LDZ Connected System Exit Points (CSEPs) for the main CSEP invoice.)

1. BACKGROUND

1.1 CSEPs General

CSEPs are exit points on Transco's system which feed pipelines owned and operated other than by Transco. These connected systems may supply gas to a number of supply points downstream of the CSEP and, to date, the majority of these are smaller supply points (with individual AQs of less than 73,200 kWh). If implemented, Network Code Modification Proposal 0216 would introduce changes to the manner in which these supply points are reconciled.

1.2 Network Code Modification Proposal 0216 and RbD

Network Code Modification Proposal 0216 was initiated principally to fulfill one of the acceptance criteria surrounding the implementation of Network Code Modification 0194, Reconciliation by Difference (RbD); the remit of the Network Code Development Workgroup being to establish an appropriate reconciliation methodology for CSEPs, consistent with the principles of RbD.

In simple terms, RbD presently achieves the reconciliation of Transco connected smaller supply points (with AQs of less than 73,200 kWh) by deriving an aggregate reconciliation variance in each LDZ and apportioning this among shippers on the basis of each shipper's daily AQ share in the smaller supply point sector in the LDZ. Should Network Code Modification Proposal 0216 be implemented, it will enable the reconciliation of smaller supply points within connected systems in aggregate via the RbD process.

As well as the impact which RbD requirements will have on the CSAQ update process and the calculation of LDZ capacity and commodity unit rates (dealt with in the accompanying paper, PD7), RbD also has implications as to the manner in which the LDZ commodity unit rate is derived for the purpose of charging for the transportation element of reconciliation variances attributable to smaller supply points within connected systems.

1.3 Charging Implications of RbD

There are differences in the calculation of transportation charges for Connected System Exit Points (CSEPs), compared with supply points connected directly to Transco's system. One of these differences is that, in the case of smaller supply points on Transco's system, the LDZ commodity unit rate is flat, and thus charging for reconciliation can be achieved in aggregate with no distortion in charging. However, in the case of supply points within connected systems, the individual loads within the connected system are aggregated at the CSEP for the purpose of determining LDZ unit rates.

Wherever the total CSAQ (divided by the number of physical connections to Transco's system) is equal to or greater than 73,200 kWh, the CSEP will fall into the LDZ charging band in which the LDZ commodity unit rate is a variable function of the CSEP aggregate peak-day load. In addition, the peak-day load value for any CSEP may change over time, as new supply points are added within the connected system. This requires that, for smaller supply points within connected systems, some simplification must be made in order to facilitate the invoicing of the LDZ commodity element of reconciliation via RbD at aggregate level. This was recognised by the Network Code Modification Proposal 0216 Development Workgroup, and has resulted in the proposal set out below.

2. PROPOSAL

2.1 Proposal - General

The proposal is that, for smaller supply points within connected systems, and for the purpose of invoicing the transportation element attributable to any reconciliation

variance via RbD, the unit rate for the LDZ commodity component should be determined as set out below.

2.2 Proposal - NDM CSEPs Snapshot

It is proposed that a snapshot of the NDM CSEP population be taken at, or around 30th June each year, listing all NDM CSEPs which are at that point live for the purposes of billing for transportation. The snapshot will show CSAQ and SOQ values for each CSEP. On the basis of this list, an average CSAQ and CSEP SOQ will be determined for application in calculating the LDZ commodity unit rate. The revised parameters would become effective from 1 October, and the LDZ commodity unit rate at any time would be determined by reference to the statement of transportation charges in force at the time.

2.3 Example Based on Indicative Charges

Using a recent extract of NDM CSEP data available, the national average CSAQ and CSEP SOQ values would be as follows:

Average NDM CSAQ	683,768	kWh
Average NDM CSEP SOQ	5,194	kWh

On the basis of the above, and by referring to the indicative transportation charges released on 4 May 1999, the LDZ commodity charge for the reconciliation of smaller supply points within LDZ connected systems would be 0.0943 p/kWh. This is 33 per cent less than the LDZ commodity rate for Transco connected smaller supply points.

2.4 Conclusion

Transco regards the above proposal as a practical solution to facilitate the implementation of Network Code Modification Proposal 0216. Total NDM CSEP throughput presently equates to around 1.9 per cent of transportation volumes, and any variance attributable to reconciling smaller supply points within connected systems is expected to be small in total. This, together with the fact that the simplified charge will be based on an average NDM CSAQ and CSEP SOQ, suggests that any distributional impact upon transportation revenue would be minimal

3. IMPLEMENTATION

It is proposed that Network Code Modification proposal 0216 will be implemented with effect from 1 October 1999. Since the successful billing of reconciliation charges for smaller supply points within connected systems under this Modification would depend upon the implementation of this proposal, it is intended that this should be implemented at the same time as the proposed Network Code Modification, should that be approved.

QUESTIONS FOR DISCUSSION

Respondents' views are invited on the proposal made in this paper for using average NDM CSAQ and CSEP SOQ as the basis for determining the applicable LDZ commodity unit rate for the reconciliation of small supply points within LDZ connected systems via RbD in order to accommodate the implementation of Network Code Modification Proposal 0216.