

TRANSCO REPORT ON DISCUSSION PAPER PD1

Balance of Transportation Charges

Transco's initial proposal

The Discussion Paper PD1 invited views on how the revised cost pools should be reflected in charges. The impact of rebalancing transportation charges to reflect the latest cost pools was shown. The paper showed that this rebalancing would result in domestic transportation charges increasing by more than average, whereas most of the Industrial & Commercial (I&C) sector would see a less than average increase.

Summary of Responses

Eighteen respondents made reference to the discussion paper or to the impact of higher than average increases for domestic supply points, fifteen shippers and three industry groups or end consumers.

Comments Received

Seven respondents supported rebalancing the charges to reflect the latest cost pools.

One supported gradual rebalancing so long as no customer group saw "real" price increases.

Two thought further justification and information on the costs were required before rebalancing the charges.

One did not agree with the methodology for deriving the cost pools. It also argued against increases for small supply points since shippers had least control of costs in those cases.

Eight respondents were concerned that rebalancing as proposed would increase charges by more than average for domestic customers and several expressed concern that, at this time, this could inhibit domestic competition.

One respondent was also concerned about the possible impact of higher than average increases for small and medium sized enterprises. They argued that many of these did not have full access to the competitive market and so large charge increases would be particularly unfair.

Transco's Response

Transco recognises the potential conflict between the licence objectives of cost reflectivity and of facilitating competition between suppliers of gas.

Transco continues to believe that rebalancing charges to reflect the latest cost pools would improve cost-reflectivity, and would be consistent with the present charging

methodology. However, Transco recognises that significantly greater than average increases for domestic supply points could impact on domestic competition at this time.

Transco also believes that the impact on the balance of charges from the changed costs pools may have been an unanticipated outcome of the MMC inquiry into the price control. Transco therefore proposes delaying the rebalancing resulting from the revised costs pools. In addition to reflecting concerns about the potential impact on domestic competition, this delay will provide an opportunity to establish the stability of the cost pools in the light of a further year's data

3. TRANSCO'S FINAL PROPOSAL

Transco proposes not to reflect the latest cost pools in setting transportation charges. Instead, Transco proposes to apply a common percentage increase to charges prior to making the other methodology changes proposed to take effect from 1 October.