

TRANSCO REPORT ON DISCUSSION DOCUMENT PD2

1998 NTS Capacity Charge Rebalancing

1. TRANSCO'S INITIAL PROPOSAL

Discussion document PD2 presented a method of partially rebalancing Transco's NTS capacity charges which took account of both 1998 and 1997 LRMCs. Individual increases were capped at 25%. Transco sought discussion on the degree of rebalancing and the possibility of harmonising minimum exit charges for all customers.

2. SUMMARY OF RESPONSES

In total there were fourteen responses; of these, eight supported rebalancing while six opposed rebalancing.

2.1 Validity of LRMC Signal

Comments Received

Four respondents expressed concern regarding continuity between the 1997 and 1998 LRMC results. One shipper was not convinced that LRMC analysis correctly apportions costs to the relevant points due to the assumption that peak flows are correlated to individual cost drivers.

Transco's Response

Transco has sought to address the year on year changes in LRMCs by proposing to change capacity charges only if both the 1998 and 1997 LRMC results demonstrate the need for a change in the same direction. This prevents changes being driven by a single year's results. The LRMC calculations are based on an increase in peak supply and demand for each possible entry/exit combination over a ten year period. Transco are developing Transcost, a PC based model for calculating LRMCs that should improve transparency and understanding of the process.

2.2 Appropriate Cap for Changes to Charges

Comments Received

Two shippers proposed a cap of +/- 10% on changes to capacity charges. One shipper proposed that entry charges should be fully rebalanced but a cap should be retained for exit charges. Three shippers approved of the 25% cap on increases proposed in PD2.

Transco's Response

Transco agrees that it is desirable to limit possible price shocks that could follow from a full rebalancing of capacity charges. In an environment where capacity charge revenue remains broadly the same, it is possible to gain a reasonable degree of rebalancing with a smaller tolerance band (say 10%). If the revenue target for capacity charges is increased, as may happen with a change of NTS capacity/commodity split to 75/25, then a broader tolerance band would be required to accommodate both the rebalancing of charges in line with LRMCs and an increasing revenue target.

2.3 Domestic Competition

Comments Received

Two respondents were concerned that regional variations in charges that may follow from rebalancing will encourage regional pricing by suppliers and thus hamper the development of domestic competition.

Transco's Response

Transco has a licence requirement to set cost reflective charges. This requirement may create greater geographic differentials in NTS capacity charges over time. Transco recognises that large changes in geographic differentials may create problems for companies seeking to establish themselves in the domestic market. A greater emphasis on rebalancing entry charges and a more restrictive cap on changes to exit zone charges would be a pragmatic solution.

2.4 Minimum Exit charge

Comments Received

One shipper responded to the proposal to harmonise minimum exit charges. The shipper agreed that this would be desirable and put forward 1p/pdth/a as the minimum level for all exit charges.

Transco's Response

Transco will introduce a minimum 1p/pdth/a for all exit charges.

3. TRANSCO'S FINAL PROPOSAL

Transco is pleased with the level of support demonstrated for some rebalancing of NTS capacity charges from October 1998. In the light of comments from respondents, Transco proposes a greater degree of rebalancing for entry charges with a tighter cap applied to exit charge rebalancing.

Transco proposes that NTS capacity charges be rebalanced using the process outlined in the consultation document, namely where both the 1997 and 1998 LRMC results indicate a change in the same direction should be made, then the charge will move to the nearest charge indicated by the 1997 and 1998 LRMCs. Rebalancing will be constrained where an overriding percentage change cap dictates less change. The minimum exit charge will be harmonised at 1p/pdth/a.

A schedule of proposed capacity charges appropriate for the proposed 75/25 capacity/commodity split is presented overleaf. The maximum increase for any entry or exit charge is limited to 25%, in line with Pricing Discussion document PD2. Apart from the entry charges constrained by the 25% cap, all other entry charges are fully rebalanced (see Appendix 1).

In the event that the proposed move to a 75/25 capacity/commodity split is vetoed by the Director General of Gas Supply, a schedule of proposed capacity charges appropriate for a continuing 65/35 NTS capacity/commodity split is also presented. In this case entry

charges are fully rebalanced (since the maximum increase is less than 25%). Increases to exit charges are capped at a maximum 10% (see Appendix 2).

1998 NTS CAPACITY CHARGE OPTIONS

Capacity charges applicable for 75/25 NTS capacity commodity split		Capacity charges applicable for 65/35 NTS capacity commodity split	
	p/pdth/a		p/pdth/a
BACTON	11	BACTON	9
EASINGTON	30	EASINGTON	26
ROUGH	30	ROUGH	26
HORNSEA	30	HORNSEA	26
THEDDLETHORPE	30	THEDDLETHORPE	26
ST FERGUS	264	ST FERGUS	243
BARROW	59	BARROW	51
TEESSIDE	55	TEESSIDE	53
WYTCH FARM	0	WYTCH FARM	0
CAYTHORPE	25	CAYTHORPE	21
ISLE OF GRAIN	-6	ISLE OF GRAIN	-6
AVONMOUTH	-12	AVONMOUTH	-12
DYNEVOR ARMS	-10	DYNEVOR ARMS	-10
GLENMAVIS	126	GLENMAVIS	109
PARTINGTON	20	PARTINGTON	17
BURTON PT	8	BURTON PT	7
HATFIELD M	30	HATFIELD M	26
SC1	9	SC1	7
SC2	9	SC2	7
SC4	11	SC4	9
NO1	42	NO1	33
NO2	75	NO2	60
NW1	107	NW1	85
NW2	130	NW2	103
NE1	54	NE1	43
NE2	36	NE2	28
NE3	36	NE3	28
EM1	31	EM1	26
EM2	36	EM2	28
EM3	80	EM3	70
EM4	81	EM4	71
WM1	116	WM1	92
WM2	116	WM2	93
WM3	189	WM3	150
WA1	153	WA1	133
WA2	336	WA2	266
EA1	53	EA1	46
EA2	139	EA2	120
EA3	94	EA3	74
EA4	139	EA4	122
NT1	182	NT1	160
NT2	209	NT2	169
NT3	153	NT3	134
SE1	237	SE1	188
SE2	182	SE2	160
SO1	175	SO1	154
SO2	242	SO2	213
SW1	204	SW1	161
SW2	281	SW2	244
SW3	344	SW3	302

Appendix 1

Proposed 1998 Capacity Charges based on 75/25 split

1. Column 1: Present NTS capacity charges.
2. Column 2: Present charges adjusted from 65/35 to 75/25 split (scale factor 15%).
3. Column 3: 1998 LRMC results scaled to 75/25 split.
4. Column 4: 1997 LRMC results scaled to 75/25 split.
5. Column 5: Maximum bound within which charges can change to reflect 1997 and 1998 LRMCs without a percentage change constraint.
6. Column 6: 1998 Capacity charge proposal based on 75/25 split.

	Bronze Book Charges 65:35	Bronze Book Charges adjusted to 75:25	1998 LRMC 75:25	1997 LRMC 75:25	97 & 98 LRMC reflective without cap	Proposal
	p/pdth/a	p/pdth/a	p/pdth/a	p/pdth/a	p/pdth/a	p/pdth/a
BACTON	11	12	11	8	11	11
EASINGTON	26	30	26	33	30	30
ROUGH	26	30	26	33	30	30
HORNSEA	26	30	26	33	30	30
THEDDLETHORPE	26	30	26	33	30	30
ST FERGUS	212	244	308	281	281	264
BARROW	82	95	59	38	59	59
TEESSIDE	44	51	61	74	61	55
WYTCH FARM	0	0	0	0	0	0
CAYTHORPE	24	27	23	25	25	25
ISLE OF GRAIN	-6	-6	-6	-6	-6	-6
AVONMOUTH	-12	-12	-12	-12	-12	-12
DYNEVOR ARMS	-10	-10	-10	-10	-10	-10
GLENMAVIS	124	143	126	82	126	126
PARTINGTON	57	65	20	8	20	20
BURTON PT	72	83	4	8	8	8
HATFIELD M	26	30	24	33	30	30
SC1	7	9	1	1	1	9
SC2	7	9	34	1	9	9
SC4	10	11	1	1	1	11
NO1	36	42	1	1	1	42
NO2	65	75	1	1	1	75
NW1	93	107	24	33	33	107
NW2	112	130	61	50	61	130
NE1	47	54	1	1	1	54
NE2	31	36	1	1	1	36
NE3	31	36	1	1	1	36
EM1	27	31	29	10	29	31
EM2	31	36	1	1	1	36
EM3	70	80	84	68	80	80
EM4	71	81	150	78	81	81
WM1	101	116	43	52	52	116
WM2	101	116	107	56	107	116
WM3	164	189	157	116	157	189
WA1	133	153	163	69	153	153
WA2	291	336	286	213	286	336
EA1	46	53	37	70	53	53
EA2	111	128	189	139	139	139
EA3	81	94	37	78	78	94
EA4	111	128	201	177	177	139
NT1	145	168	288	401	288	182
NT2	181	209	188	195	195	209
NT3	122	141	211	240	211	153
SE1	205	237	91	108	108	237
SE2	145	168	288	413	288	182
SO1	140	162	198	285	198	175
SO2	194	223	359	435	359	242
SW1	177	204	175	160	175	204
SW2	225	259	282	352	282	281
SW3	275	317	489	449	449	344

Appendix 2

Proposed 1998 Capacity Charges based on 65/35 split

1. Column 1: Present NTS capacity charges.
2. Column 2: 1998 LRMCM results scaled to 65/35 split.
3. Column 3: 1997 LRMCM results scaled to 65/35 split.
4. Column 4: Maximum bound within which charges can change to reflect 1997 and 1998 LRMCMs without a percentage change constraint.
5. Column 5: 1998 Capacity charge proposal based on 65/35 split.

	Bronze Book Charges 65:35	1998 LRMCM 65:35	1997 LRMCM 65:35	97 & 98 LRMCM reflective without cap	Proposal
	p/pdth/a	p/pdth/a	p/pdth/a	p/pdth/a	p/pdth/a
BACTON	11	9	7	9	9
EASINGTON	26	23	28	26	26
ROUGH	26	23	28	26	26
HORNSEA	26	23	28	26	26
THEDDLETHORPE	26	23	28	26	26
ST FERGUS	212	267	243	243	243
BARROW	82	51	33	51	51
TEESSIDE	44	53	64	53	53
WYTCH FARM	0	0	0	0	0
CAYTHORPE	24	20	21	21	21
ISLE OF GRAIN	-6	-6	-6	-6	-6
AVONMOUTH	-12	-12	-12	-12	-12
DYNEVOR ARMS	-10	-10	-10	-10	-10
GLENMAVIS	124	109	71	109	109
PARTINGTON	57	17	7	17	17
BURTON PT	72	4	7	7	7
HATFIELD M	26	21	28	26	26
SC1	7	1	1	1	7
SC2	7	29	1	8	7
SC4	10	1	1	1	9
NO1	36	1	1	1	33
NO2	65	1	1	1	60
NW1	93	21	28	28	85
NW2	112	53	43	53	103
NE1	47	1	1	1	43
NE2	31	1	1	1	28
NE3	31	1	1	1	28
EM1	27	26	9	26	26
EM2	31	1	1	1	28
EM3	70	73	59	71	70
EM4	71	130	67	72	71
WM1	101	37	45	45	92
WM2	101	93	49	93	93
WM3	164	136	101	136	150
WA1	133	141	60	135	133
WA2	291	248	185	248	266
EA1	46	32	61	47	46
EA2	111	164	120	120	120
EA3	81	32	67	67	74
EA4	111	174	153	153	122
NT1	145	250	348	250	160
NT2	181	163	169	169	169
NT3	122	183	208	183	134
SE1	205	79	94	94	188
SE2	145	250	357	250	160
SO1	140	171	247	171	154
SO2	194	311	377	311	213
SW1	177	151	139	151	161
SW2	225	244	305	244	244
SW3	275	424	389	389	302