

## TRANSCO CONSULTATION REPORT ON PC74

### Interruptible Transportation Charges

#### 1. Transco's Initial Proposal

PC74 sought views on a proposed change to the transportation charges payable in respect of interruptible supply points. It proposed that, in addition to the present standard benefits, transportation credits be payable when individual supply points are nominated for interruption by Transco on more than 15 days in a year. For each additional day of interruption over 15 days, a transportation charge credit would be available, equivalent to 1/15 of the annual NTS exit capacity and LDZ capacity charges avoided as a result of the interrupted supply point having interruptible rather than firm transportation rights. Transco's existing right to interrupt a supply point for up to 45 days a year, or more for Transco Nominated Interruptible (TNI) supply points, would not be changed. As part of this change, however, it was proposed to discontinue the present commodity discount applicable in respect of transportation to TNI supply points.

Transco believes this proposal is in line with the transitional, April 2002 to March 2004, arrangements outlined by Ofgem in the recently published proposed modifications to Transco's Gas Transporter (GT) Licence.

This report sets out the views received and Transco's response.

#### 2. Summary

There were fourteen responses to the consultation paper.

Shippers & Suppliers	
British Gas Trading	BGT
Dynegy	DYN
Innogy	INN
London Electricity Group	LEG
PowerGen	PG
Scottish Power	SP
Scottish & Southern Energy	SSE
Shell Gas Direct	SGD
Statoil	STA
TXU Europe Energy Trading	TXU
Other Interested Parties	
Association of Electricity Producers	AEP
Chemical Industries Association	CIA
Corus	COR
Pfizer	PFZ

Seven respondents supported the proposal, either without qualification (LEG, PG, SP) or with caveats with regard to part of the proposal or its implementation (COR, INN, SSE, STA). Seven respondents (AEP, BGT, CIA, DYN, PFZ, SGD, TXU) either did not support the proposal at all or had major concerns with regard to it.

### **3. Detailed Responses**

#### **3.1 Basis of Interruption**

Seven respondents (AEP, COR, INN, LEG, SSE, SGD, TXU) were concerned that the proposal would lead to interruption on the basis of cost to Transco rather than the present system based on interruptible algorithms. Respondents raised concerns that there might be an incentive to interrupt one large site rather than several small sites and that whether the site was connected to the NTS or LDZ might affect the choice of sites to interrupt.

#### **Transco's Response**

The basis for selecting between sites for interruption purposes is presently set in the Operational Guidelines. The selection basis for sites identified by Transco tends to result in an even selection of sites within an area, subject to locational constraints. Transco believes this outcome is in line with the Ofgem proposed SO exit interruption incentive to minimise the number of days any site is interrupted beyond 15 days in a year. Transco does not intend, at present, to change the basis of the selection of proposed sites for interruption to take into account the level of interruptible rebates, as is suggested by a number of the respondents.

In recent years, with relatively mild winters, the sites most likely to be interrupted have been Network Sensitive Loads (NSLs). In these cases, there is generally little or no opportunity for Transco to select alternative sites for interruption, since the requirement for interruption is constrained to the area of the NSL. The impact of the proposed SO exit incentive is thus to increase the incentive on Transco to reduce the requirement for interruption in these cases, for example by increasing the level of capacity within the relevant area.

#### **3.2 Removal of the TNI Discount**

Five respondents (AEP, INN, SSE, STA, TXU) expressed concerns that TNI sites would not be adequately compensated for the additional costs associated with possible interruption for prolonged periods. Three respondents (BGT, LEG, SP) agreed that the proposal for TNIs was appropriate.

#### **Transco's Response**

Under the PC74 proposal, where TNI sites are interrupted for a large number of days, beyond 15 in a year, then a level of credit consistent with this will be paid by Transco. Transco considers that the proposed structure of capacity charges foregone and additional credits is likely to be more in line with the pattern of costs borne by TNI sites, compared to the present fixed discount structure.

### **3.3 Implementation Issues**

Four respondents (AEP, SSE, SGD, STA) commented on the timing of the change. There was concern that there would be insufficient time for changes to the Network Code, Transco's billing systems and those of shippers.

Two respondents (COR, TXU) raised the issue of when credits would be paid to shippers.

Two respondents (BGT, SGD) commented that in some cases there could be negative transportation charges.

One respondent (SSE) stated that it was unclear how credits would be made where a shipper nominated an alternative site for interruption to that initially proposed by Transco.

Two respondents (AEP, TXU) had concerns with regard to how or whether credits would be passed on from shippers to end users.

#### **Transco's Response**

The implementation of the potential change has been discussed at the Capacity Workstream. Transco has raised a proposed modification to the Network Code (Modification Proposal 0555) and believes this is capable of being progressed in time to permit implementation from 1 October 2002. Transco has also identified changes to billing systems and formats and considers that it should be possible to implement changes before the first credit payments are likely to be made, particularly since, based on experience, it is unlikely that any sites would be nominated for interruption beyond 15 days before January 2003.

It is proposed within Network Code Modification Proposal 0555 that shippers be credited for interruption in excess of 15 days on a monthly basis as for standard transportation billing, and that credits be calculated on the basis of the site initially proposed by Transco rather than any alternative nominated by the shipper.

Transco agrees that, due to the structure of the credits, there could be instances where the credits in relation to specific sites are higher than the transportation charges related to that site.

Any transportation credits relating to interruption of a site will be paid to the relevant shipper. Transco would expect that arrangements between shippers and end users relating to the credits would be subject to normal commercial considerations.

### **3.4 Other Issues**

One respondent (CIA) commented that end users, via shippers, should be able to signal willingness to enter into interruptible contracts above 15 days and also noted that the transitional arrangements do not include direct dealing between Transco and end users.

One respondent (PFZ) commented that there had been no consideration of the provision of a service which would have a maximum of 15 days interruption. Two respondents (DYN, INN) indicated that they would prefer a wider range of options for interruptible services.

One respondent (DYN) commented that all present interruptible sites should have the option to have a firm service.

### **Transco's Response**

The potential changes set out in PC74 relate to the implementation of interruptible arrangements during the transitional period, from April 2002 to March 2004 or whenever universal firm registration, as outlined in Ofgem's proposed Licence modifications, is put in place. Transco would welcome views on the types of other services and arrangements, such as those suggested by the respondents, and suggests these should be considered in the context of the post-transitional regime.

Under the terms of the Gas Act, Transco is restricted at present from having transportation arrangements directly with end users and so could not consider such arrangements in the context of these proposals.

## **4. Conclusion**

Transco welcomes the comments on the proposal contained within PC74.

Transco considers that the proposal as initially outlined is in line with Ofgem's proposed Licence requirements and believes that the proposal complies with the conditions set out in the proposed Licence modifications with regard to the SO exit incentive. Transco therefore considers that the proposal reflects industry developments, and hence that implementation is consistent with the relevant objectives set out in Condition 4 of its GT Licence, namely to take account of developments in the transportation business.

The final proposal is unchanged from that in PC74, namely:

**Transco proposes to change the transportation charging methodology in respect of interruptible supply points such that:**

**For each additional day of Transco called interruption over 15 days in a formula year (April to March) a transportation charge credit equivalent to 1/15 of the annual NTS exit capacity and LDZ capacity charges avoided by the interrupted supply point having interruptible rather than firm transportation would be payable to the Shipper.**

**Dependent on the development of Network Code Modification Proposal 0555, the credit will relate to the site originally suggested by Transco rather than to any alternative site nominated by the shipper.**

**The existing commodity rate discount in respect of transportation to TNI supply points should be discontinued from the time of introduction of the credit arrangement.**