

TRANSCO PRICING CONSULTATION PAPER PC64

Amendment to the Use of the NTS Commodity Rate to Re-balance Auction Revenue

INTRODUCTION

Following consultation on PC60, “Re-balancing Revenue Raised by MSEC and Other NTS Auctions”, Transco introduced a mechanism to adjust the NTS commodity charge where the outcome of the NTS capacity auctions implies a deviation from target revenue of greater than ! 10%. The adjustment would be sufficient to bring the deviation back to ! 10%. Following the Monthly System Entry Capacity (MSEC) auctions in August there was significant potential over-recovery and the NTS commodity charge was reduced in line with the above mechanism with effect from 1 October.

A situation has now arisen following the first set of Monthly Interruptible System Entry Capacity (MISEC) auctions where the revenue is expected to breach the 10% threshold again, but by a very small amount, less than £1 million. This is a particular issue at this time since the two sets of monthly auctions, firm and interruptible, were conducted to cover different periods. If both sets of auctions were held at about the same time, as is expected in future, the revenue from both can be taken into account simultaneously before any change to the NTS commodity rate is calculated.

The options in response to the present relatively small level of revenue in excess of the 10% threshold are:

1. Do nothing on the basis that the benefit of making the change may be more than outweighed by the expense which would be incurred by both Transco and shippers in changing their systems to accommodate a relatively small change for a relatively short period of time.
2. Change the NTS commodity rate in line with the methodology set out in the consultation report on PC60. The change would be of the order of 0.0002 p/kWh.
3. Change the methodology agreed following the consultation on PC60 to include a qualification that the charges will not be changed where the adjustment required is less than 0.0005 p/kWh.

DISCUSSION

Option 1, do nothing, which is attractive from the point of view that it does not require any action or expense from either Transco or shippers, would put Transco potentially in breach of its Licence requirements to comply with the published transportation charging methodology.

Option 2, to change the NTS commodity rate by a small amount, would be consistent with the existing methodology but would entail expense for both Transco and shippers

for little benefit. A very small change in the rate might also cause some confusion as to the rate being applied.

Option 3, to add a qualification to the transportation charging methodology so that the need to make very small changes is avoided is Transco's preferred option. It would not only deal with the current minor over-recovery but would also then be part of the methodology and would be applied to avoid very small changes to the NTS commodity rate should the same situation arise again.

QUESTION FOR CONSULTATION

Views are invited on the appropriateness of modifying the methodology set out in the consultation report on PC60 to introduce a minimum threshold for making changes to the NTS commodity rate. It is proposed that this threshold should be 0.0005p/kWh, which would be equivalent to about £3 million over a winter six-month period.

The final proposal in the consultation report on PC60 would therefore be modified to read:

“In a situation where the aggregate outcome of NTS transportation service auctions imply a deviation from target revenue of greater than ! 10% the NTS commodity charge will be adjusted as necessary from the start of the period in which the auctioned service is provided such that the deviation from target revenue is reduced to ! 10%. This adjustment will be subject to the constraint that the NTS commodity charge must be greater than or equal to 0.0022p/kWh (the short run marginal cost of operating the NTS) *and also to the constraint that where the change required is less than 0.0005p/kWh no change will be made.*”

If this change is not made, the NTS commodity rate will be reduced by 0.0002p/kWh to 0.0072p/kWh with effect from 1 January 2001 until 31 March 2001 in order to return to Shippers the £0.6million expected to be collected as a result of the recently completed MISEC auctions. The commodity rate from 1 April will depend on the results of the next set of auctions due to be held before the end of February.