

TRANSCO PRICING CONSULTATION PAPER PC66
TRANSPORTATION CHARGE ADJUSTMENTS FOLLOWING ENTRY
CAPACITY AUCTIONS

SUMMARY

The amount of Monthly System Entry Capacity offered for sale in the August 2001 auctions will be substantially higher than that offered in earlier auctions. As a result, it may be argued that there is an increased probability of auction based revenue being lower than that which would have been raised through administered entry charges. In view of this, Transco proposes suspending the revenue adjustment mechanism which would apply if a shortfall were to be seen in practice. As a result, any shortfall would be accounted for through increases to the generality of transportation charges rather than being focussed solely on the NTS Commodity charge.

TRANSPORTATION CHARGE ADJUSTMENTS FOLLOWING ENTRY CAPACITY AUCTIONS

1. Introduction

In each of the last three sets of auctions of Monthly System Entry Capacity, the auction income has substantially exceeded the target revenue. A number of concerns have been raised about the impact of such over-recoveries, and a number of suggestions made as to how over-recovery might be dealt with or avoided. When Network Code Modification proposal 0481 was raised, the proposer indicated that its implementation could be expected to reduce the prospect of over-recovery.

Implementation of Network Code Modification Proposal 0481 has significantly increased the quantity of Monthly System Entry Capacity (MSEC) being offered for sale in the forthcoming auction. Other things being equal, such an increase in the quantity offered for sale is expected to decrease the average price paid for entry capacity. Since reserve prices are set at a discount to the “target” revenue (that which would have been raised under administered charges), it is possible that the outcome prices could imply a shortfall relative to the target level. In the present circumstances, Transco believes there could be merit in amending its Transportation Charging Methodology such that any compensating increase to transportation charges is not focussed solely on the NTS Commodity Charge.

2. The Present Arrangements

An adjustment process to apply when auction revenue deviates from target revenue was established following Pricing Consultation paper PC60. Where the aggregate income implied by the auctions is expected to deviate from target revenue by more than 10%, the NTS commodity charge is adjusted as necessary such that the deviation is reduced to 10%, subject to a minimum rate of 0.0022p/kWh.

The charge is currently at 0.0022p/kWh and will continue at that level until 30th September 2001. From 1 October it will revert to the provisional rate of 0.0160p/kwh reduced by the 15% general reduction, equivalent to 0.0136p/kwh, but would be subject to the appropriate adjustments depending on the outcome of the forthcoming auctions. If income is still forecast to be above target following any commodity charge adjustment then a general adjustment in all transportation charges is applied, sometimes referred to as the K-adjustment factor. The most recent adjustment to transportation charges arose following the auctions of February 2001 whereby a 15% reduction in transportation charges was applied from 1 June 2001.

3. The Proposal

Transco proposes amending its Transportation Charging Methodology such that this adjustment mechanism would not be used following any shortfall of revenue relative to the target. That is, Transco would not increase the NTS Commodity Charge alone. Instead, Transco proposes that the general level of transportation charges would be adjusted with a view to ensuring compliance with its price control limits.

This proposal is being put forward since the potential for bid prices implying revenue below the target could be regarded as having been heightened by implementation of Modification Proposal 0481. Transco is concerned that it may be regarded as inappropriate for any upward adjustment to be focussed solely on the NTS Commodity Charge when other charges will still be at the reduced level implemented following the last set of entry capacity auctions. Instead, were the proposal to be implemented and a shortfall to occur, Transco would anticipate implementing a general increase in all major transportation charges.

QUESTION FOR CONSULTATION

Views are invited on the appropriateness of Transco amending its Transportation Charging Methodology such that any shortfall of revenue implied by the forthcoming auctions leads to a general increase in transportation charges rather than an increase focussed solely on the NTS Commodity Charge.