

TRANSCO PRICING CONSULTATION PAPER PC67

TECHNICAL ADJUSTMENT TO PC65 MECHANISM

INTRODUCTION

Transco is raising this consultation with a view to making a technical adjustment to the mechanism introduced by PC65, such that the non-negativity condition is removed. PC65 amended the transportation charging methodology such that :

- *If auction implied revenue is above, but within 10% of, the target level, there will be no automatic offsetting adjustment to transportation charges;*
- *If auction implied revenue is more than 10% above the target level, Transco will calculate the level of this excess revenue;*
- *The excess revenue will then be divided by six in order to establish monthly amounts;*
- *For any month where the excess amount exceeds aggregate User buy-back costs, the excess amount for the following month will be increased by the amount by which the excess exceeds aggregate User buy-back costs; and*
- *Transco will reduce each Users' entry capacity charges by a share of the lower of the excess or buy-back costs for the relevant month, with that share based on the proportion of aggregate MSEC held by the User concerned in the relevant month, **subject to that share not exceeding its unadjusted entry charge.***

This consultation paper invites views on the removal of the final condition, highlighted in bold above.

DISCUSSION

The non-negativity condition in the final bullet point above was included as a technicality designed to ensure that payments were made, rather than received, in exchange for booking entry capacity. However, it has been suggested that where this constraint is effective, it potentially undermines the intent of PC65 and hence, may run counter to the way bidders in recent auctions believed the mechanism would operate. For example, in its letters explaining that PC65 was not going to be vetoed, Ofgem said "In the event of buy back costs, a rebate to MSEC holders will be made to offset MSEC holders' exposure to that proportion of buy back costs not paid by Transco under its incentive scheme."

In order to ensure that entry charge rebates more closely match buyback costs for all shippers, Transco invites views on removing the non-negativity condition from the methodology introduced by PC65.

CONCLUSION

Transco invites views on this technical amendment to PC65, such that from 1 October 2001 the mechanism employed for dealing with excess revenue from the NTS auctions would be:

- **If auction implied revenue is above, but within 10% of, the target level, there will be no automatic offsetting adjustment to transportation charges;**
- **If auction implied revenue is more than 10% above the target level, Transco will calculate the level of this excess revenue;**
- **The excess revenue will then be divided by six in order to establish monthly amounts;**
- **For any month where the excess amount exceeds aggregate User buy-back costs, the excess amount for the following month will be increased by the amount by which the excess exceeds aggregate User buy-back costs; and**
- **Transco will reduce each Users' entry capacity charges by a share of the lower of the excess or buy-back costs for the relevant month, with that share based on the proportion of aggregate MSEC held by the User concerned in the relevant month.**