

TRANSCO CONSULTATION REPORT ON PC71

NTS Transmission Asset Owner Charges

1. Transco's Initial Proposal

In PC71 Transco sought views on the following proposed changes to its Transportation Charging Methodology relating to the proposed National Transmission System, Transmission Asset Owner (NTS TO) price control:

- NTS capacity charges be based on 100% of the target TO revenue rather than 65% of target NTS revenue.
- the NTS TO target revenue be split 50:50 between revenue from entry capacity charges and exit capacity charges.
- in the derivation of entry and exit charges from the LRMC route costs that terminal specific CVs should be used in the calculation of LRMC per unit of energy and that the entry charge at Bacton should no longer be fixed.

Transco also sought views on whether the present basis of the LRMC calculations continues to be appropriate in the light of Ofgem's proposals for the TO Price Control and the continuing development of the NTS capacity regime.

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

2. Summary

There were eleven responses to the consultation paper.

Shippers & Suppliers	
Amerada Hess	AMH
British Gas Trading	BGT
BP Gas Marketing	BPG
Innogy	INN
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

All respondents broadly supported the proposals. However, two (INN AMH) were of the view that further consultation would be necessary following the publication by Ofgem of System Operator Final Proposals in December 2001.

3. Detailed Responses

3.1 TO 100% Funded by Capacity Charges

One respondent (AMH) expressed concern at this proposal on the grounds that, in conjunction with the proposals in PC70, it would lead to an 80:20 capacity: commodity split in NTS charges, further widening the gap between the charges paid by firm and interruptible customers.

Five respondents (SSE AEP INN PG BPG) were of the view that this basis was more cost reflective and another (SP) supported this basis.

Transco's Response

Transco considers that the proposed basis is more cost-reflective than the existing basis, and should therefore be adopted.

3.2 Split of Entry & Exit Revenue

The proposal to equalise entry and exit target revenue was supported by seven respondents (BGT BPG PG SP SGD STA AEP). Reasons given included increased stability of charges and the fact that entry and exit volumes must be equal. However, one respondent (TXU) wondered why this predetermined split was necessary.

Transco's Response

Transco considers that the equal split is appropriate for the reasons originally given PC71, namely greater stability and consistency with the setting of exit charges and entry floor prices.

3.3 Use of Terminal Specific CVs

This proposal was supported by seven respondents (BGT AEP PG AMH INN SGD BPG) that believed that it met their concerns with regard to mixing and blending as a result of low CV gas entering the system. However one (AMH) wondered why, if the Barrow entry charge had risen 4.5%, its capacity auction floor price had in fact fallen.

Transco's Response

The 4.5% increase in the Barrow administered charge is not measured by a year on year comparison but rather by comparison of the charge both with and without the CV adjustment. On a similar basis the quoted MSEC reserve price is higher than would otherwise have been the case. The year on year fall in the Barrow reserve price is due to the more recent estimates of the LRMC-reflective entry charge for Barrow being lower than previously.

3.4 Fixing of Bacton Entry Charge

Six respondents (BGT AEP INN AMH PG BPG) supported the proposal that the Bacton entry charge be no longer fixed prior to the optimisation of LRMC reflective charges by use of the Excel Solver function. One respondent (STA) however felt that there needed to be more discussion before this proposal was implemented.

Transco's Response

As was explained in the paper, there is no longer any need to fix the Bacton charge initially in the solving procedure. The abolition of this constraint enables more cost-reflective charges to be determined.

3.5 Other Issues

Four respondents (SSE AMH BPG AEP) expressed some concern about how Ofgem's final SO proposals, especially with regard to exit, might affect the proposals in this consultation paper, in particular TO target revenue and the split between entry and exit charge revenue.

Three respondents commented on the basis of the LRMC process used at present to set NTS TO capacity charges (BGT SP AEP), all supported continuation without change, on the grounds of cost reflectivity.

One respondent (TXU) wished to know why, if movements in the level of charges were capped at +/- 30%, some had shown greater than 50% increases.

Transco's Response

PC71 was concerned with the methodology underlying the TO transportation charges and assumed the continuation of the existing exit charging regime. Any proposed changes to the charging methodology in the light of Ofgem's final SO proposals will be consulted on separately.

Transco is also of the opinion that the present LRMC methodology offers an appropriate means of setting cost reflective NTS TO capacity charges.

The 30% cap and collar placed on the movement of charges refers to the charge rebalancing procedure, as set out in Appendix B of PC71, which was applied after all charges were raised as a result of the 24.7% increase in target revenue for capacity charges. A particular charge may therefore have increased by greater than 50% from its October 2000 level.

4. Conclusion

Transco welcomes both the comments and level of support received for the proposals contained within PC71. Transco therefore proposes that, with effect from 1 April 2002, the Transportation Charging Methodology should be amended such that:

- NTS capacity charges are based on 100% of target TO revenue;
- the NTS TO target revenue is split 50:50 between revenue from entry capacity charges and exit capacity charges; and
- in the derivation of entry and exit charges from the LRMC route costs, that terminal specific CVs should be used in the calculation of LRMC per unit of energy and that the entry charge at Bacton should no longer be fixed.