

## **Pricing Consultation Paper PC74**

### **Interruptible Transportation Charges**

#### **SUMMARY**

This paper seeks views on a proposed change to the transportation charges payable in respect of interruptible supply points. It proposes that, in addition to the present standard benefits, transportation credits be payable when individual supply points are interrupted for 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 is 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, and the accompanying explanatory notes.

It is envisaged that this change to the Charging Methodology would be introduced from October 2002.

#### **1. Introduction**

At present, the main transportation charge benefits of transportation to interruptible supply points are the avoidance of the NTS exit capacity and LDZ capacity charges.

The proposed GT licence modifications published by Ofgem determine possible changes to the structure of the interruptible transportation charges with additional transportation rebates being payable when individual supply points are interrupted for more than 15 days in a year.

This paper seeks views on this proposed change and an associated change to discontinue the present commodity discount applicable in respect of transportation to Transco Nominated Interruptible (TNI) supply points.

It should be noted that 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 GT Licence, and the accompanying explanatory notes.

## **2. Details of Proposed Changes**

At present, for supply points which have been nominated by a shipper as interruptible, the shipper will pay neither the NTS exit capacity charge nor the LDZ capacity charge. Transco has the right to interrupt these supply points for up to 45 days each year. For Transco Nominated Interruptible (TNI) supply points, Transco has the right to interrupt these for more than 45 days each year and an additional reduction in transportation charges is given through discounted NTS SO and LDZ commodity charges.

It is now proposed that the level of transportation charges be reduced in respect of supply points which are interrupted for more than 15 days in a particular year (measured from April to March). 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.

Linked to this change, it is proposed that the additional benefit of discounted NTS SO and LDZ commodity charges for transportation to TNI supply points be discontinued. Under the proposal, where a TNI supply point was interrupted for more than 45 days then a transportation credit related to the number of days interrupted in excess of 15 would be payable to the Shipper. For example, if the TNI supply point were interrupted for 60 days in a year then a transportation credit relating to 45 days interruption beyond 15 days would be payable, equivalent to three times the annual NTS exit and LDZ capacity charges avoided. The potential level of transportation charge reduction in cases where a TNI supply point is interrupted for many days in excess of 15 in a year would be greater than the present commodity charge reduction benefit..

## **3. Implementation of the Change**

Implementation of the change may require modification to the Network Code and to billing systems. These modifications will be pursued in parallel to the charging methodology process with the aim of enabling implementation of the change, if proposed following consultation, from 1 October 2002.

Transco expects that implementation of such a change would increase the SO incentive target from otherwise as detailed in the proposed Licence modifications. The respective element of the SO incentive target (£2.8m in 2002/03) was set by Ofgem in recognition of the potential cost of payments in respect of supply points interrupted on more than 15 days per year. If the SO allowed revenue were to be higher then, in line with the existing charging methodology, this would be reflected in a slightly higher NTS SO commodity charge than otherwise.

The introduction of such a charging arrangement would provide a particular incentive on Transco to minimise the number of days, beyond 15, on which any supply point was interrupted by Transco in a year. In line with this, Transco may modify its procedures for determining which supply points are interrupted when interruption is required.

#### **4. Questions For Consultation**

**Views are invited on the appropriateness of changing 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.**
- **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.**