

## TRANSCO CONSULTATION REPORT ON PC79

### Review of the Charge for the Provision of an Estimated Opening Read

#### 1. Transco's Initial Proposal

In PC79 Transco invited views on the appropriate charge when Transco provides a system generated opening read estimate for the below 73,200 kWh market sector. Two options were suggested:

1. Charging at a revised cost reflective level of £0.50 per estimate.
2. Removing the charge completely.

#### 2. Summary

There were six responses to the consultation paper.

Shippers & Suppliers	
British Gas Trading	BGT
npower	NP
PowerGen	PG
Scottish & Southern Energy	SSE
Shell Gas Direct	SGD
Total Gas & Power	TGP

Four respondents supported the proposal to remove the charge completely (NP, PG, SSE, SGD), with one of these (NP) offering a proviso – see 3.2 later. Two respondents (BGT, TGP) favoured reducing the charge to 50p.

#### 3. Detailed Responses

##### 3.1 Incentive to provide Actual Reads

Four respondents (NP, PG, SSE, SGD) commented that the removal of the charge would not necessarily prove a disincentive to providing actual reads as shippers had their own commercial reasons for preferring an actual read. Two respondents (BGT, TGP) favoured retaining a charge as an incentive for poorly performing shippers to provide an actual read. One respondent (BGT) commented that if the charge were to be removed “then this could result in a shift change to the number of estimated opening reads supplied by Transco, the costs for which the rest of the industry would incur.”

## **Transco's Response**

Transco supports the comments made about the incentives on shippers to obtain an actual read for their own commercial reasons being a greater driver on them than the opportunity to benefit from “free” reads. With regards to the comment about shippers having to pay for the increased costs incurred should estimated readings increase as a result of the removal of the charge – first, Transco doesn't believe there will be a significant increase in estimates; secondly, many costs are relatively fixed and would not increase with more estimates; thirdly, if there were any increase in costs Transco would have to bear these costs during the current formula period because within this formula period the level of allowed revenue is not affected by changes in costs. If there were to be a material change in the number of estimates and related costs following removal of the charge then Transco could review matters.

### **3.2 Costs, charges and Allowable Revenue**

There were a number of comments made about the treatment of charges and costs if the charge were to be removed completely. Two respondents (BGT, NP) suggested that if the charge were removed only the £228,000 costs associated with the administration of the service should be added back into general transportation charges and not the £250,000 invoicing costs. One respondent (SSE) stated “that Transco should not seek to recover any costs through transportation charges”. One respondent (PG) commented that if the costs of providing the service were no longer to be reflected in a specific opening read charge, then the associated allowed revenues should be reflected in charges to the smaller supply points only.

## **Transco's Response**

There appears to be some confusion about the relationship between costs, charges and allowed revenue and therefore what happens to charges and costs if the opening read charge were to be removed.

Within the current price control period the allowed revenue is determined by the volume of gas transported, the cost-pass-through items (rates and Licence fees), the Mains Replacement Incentive and K. So if the charge were removed then the revenue foregone (about £0.9m at the current level of the charge) would appear as an under-recovery in K and be taken into account the next time the transportation charges were adjusted. This would be the case whatever happened to costs in the short-term. It is the short-fall in collected revenue relative to allowed revenue which would be taken into account in considering the level of charges, not the recovery any element of cost.

As a result of the removal of the charge Transco expects the invoicing costs to be saved, of the order of £250,000 p.a., with any increase in IT and admin costs being marginal. This cost saving will have no effect on charges in the short-term but it will be taken into account in the cost projections for the next price control review and should be reflected in lower price levels in the next price control period.

With regards to the PG comment, the very small increase in general transportation charges would be shared between all customers in the same ratio as the existing charges. This means the bulk of the revenue would in fact come from small users.

### **3.3 Cost analysis**

One respondent (PG) was concerned that the system that produces the estimated readings does so for both larger supply points as well as smaller supply points and that the proportion of costs attributable to larger supply points had not been separated out and excluded from this analysis.

### **Transco's Response**

The £10,000 of system costs shown in this paper is an estimate of those costs attributable to smaller supply points only.

### **4. Transco's Final Proposal**

Transco welcomes the comments received in response to the proposals made in PC79. Responses were split 2:1 in favour of the removal of the charge compared to a reduction to £0.50, and in the light of these responses Transco make the following final proposal :

**That the present charge for the provision of an Opening Read Estimate for the below 73,200 kWh market sector should cease with effect from 1 September 2004.**