

## **TRANSCO PRICING DISCUSSION DOCUMENT PD 2**

### **1998 NTS Capacity Charge Rebalancing**

#### **SUMMARY**

This discussion paper presents a partial rebalancing option for Transco's NTS capacity charges. The rebalancing is carried out in line with both 1998 and 1997 LRMC's. Capacity charges are rebalanced only when a consistent trend is demonstrated by both sets of LRMC's.

Increases to charges have been capped at 25%, enabling the increases in NTS transportation charges for a typical domestic customer in the SW3 charging zone to be limited to 14%. A number of exit charges have been reduced by 13.7%.

Rebalancing enables Transco to improve the cost reflectivity of NTS capacity charges. Improved cost reflectivity promotes efficiency in investments in line with the PGT licence requirements.

Transco also welcomes discussion regarding the possibility of harmonising minimum exit charges for all customers.

## **1. INTRODUCTION**

LRMC based capacity charges are intended to provide forward looking signals to system users, who are then able to make economically efficient investment decisions. Failure to rebalance the NTS capacity charges in line with the LRMC signals diminishes the appropriateness of the charging signals provided.

The 1998 recovery target for NTS capacity charges is £359.6m. NTS capacity charges, last set in October 1997 would under recover if left unchanged through 1998.

The methodology used for calculating LRMC charges in 1998 remains unchanged from that used in 1997. The methodology is described in Appendix 12 of the 1997 Ten Year Statement. The tool used to calculate reinforcements over the 10 year period is Transco's network analysis programme, FALCON.

## **2. LRMC REFLECTIVE CHARGES**

Both the 1998 and 1997 LRMC reflective charges have been scaled to recover the 1998 NTS capacity charge target, based upon the 1998 peak day flow forecast. Changes in the balance of charges between two sets of LRMC results are a well known occurrence. The changes reflect a changing pattern of capacity constraints on the pipeline system. The largest increases from the 1997 to 1998 results are St Fergus (up 24p/pdth/a) at entry and North Wales (up 85p/pdth/a) at exit. Both are reflective of local conditions. An increasing rate of growth in gas delivered to St Fergus terminal and a number of new power generation projects in the North Wales/Merseyside area are believed to have driven these increases.

Large movements in the opposite direction are also noted, the largest being Teesside (down 12p/pdth/a) at entry and NT1 (down 102p/pdth/a) at exit. The changes at Teesside are prompted by the commissioning of planned capacity enhancement. Exit charges at NT1 have been driven down by the increasing use of LNG from the Isle of Grain to maintain a national supply/demand match in later years.

The type of uncertainty associated with LNG usage in future years, supplies growth rates, and locations of new power generation projects, leads to a certain degree of caution about using only one years LRMC reflective charges as the basis for rebalancing.

### **3. PARTIAL REBALANCING**

Transco wish to put forward for discussion, the option of a partial rebalancing of NTS capacity charges in 1998. This would allow NTS capacity charges to be rebalanced only if both the 1998 and 1997 LRMC reflective charges have provided a consistent signal as to the direction a particular charge should be moved. If both LRMC's are at a higher level than the existing capacity charge, then the charge will be rebalanced to a level no greater than the minimum LRMC value. In the event of both LRMC's being lower than the existing charge, then the charge will be rebalanced to a level no lower than the maximum of the two LRMC values. Capacity charges that are already positioned between the two LRMC's will remain unchanged.

Further to this process no increases greater than 25% would be allowed for individual capacity charges. This enables a maximum reduction of 13.7% to a number of charges.

The maximum increases in capacity charges after applying the partial re-balancing method to the 1997 capacity charges are St Fergus at entry (up 42p/pdth/a) and SW3 at exit (up 69p/pdth/a). These adjustments increase the St Fergus entry charge to the lower LRMC reflective level indicated by the two sets of LRMC charges. Exit Charges at SW3 have been limited to a 25% increase, since both sets of LRMC reflective charges are in excess of 400p/pdth/a

The largest decreases are Barrow (down 11p/pdth/a) at entry and South Wales (down 33p/pdth/a) at exit. Both LRMC reflective charges indicate that there is potential for reducing Barrow entry charges further in future years. South Wales has been reduced to a level consistent with the 1998 LRMC reflective charges.

### **4. MINIMUM EXIT CHARGES**

Transco wishes to discuss the harmonisation of minimum exit charges. The present methodology provides a minimum charge of 10p/dth/a to be set during the regression procedure to ensure that all charges remain positive. This level has been maintained since the inception of LRMC based NTS capacity charges to provide stability in the charges. New VLDMC's have been constrained to positive charges of at least 1p/pdth/a. New entry and exit zones are not presently constrained by old values and can therefore be introduced at the most cost reflective level.

This process creates anomalies, where a VLDMC exit charge may be lower than that of the surrounding charging zone because the site had been commissioned since the creation of the LRMC process.

Since the introduction of the LRMC charges, the scaling factors applied to ensure no over recovery of capacity charges has reduced the minimum exit charge at NTS charging zones to 7p/pdth/a. Transco welcomes further discussion of the desirability of harmonising minimum exit charge's and the appropriate level at which they should be set.

### **5. IMPACT**

Rebalancing will have no effect on the average level of charges, however it will create regional variations around the average. In general, exit charges in Scotland or the north of England will reduce or be unchanged whereas exit charges in the south will be increased.

The maximum impact will be for supply points in SW3 exit zone. Considering an average entry charge and the SW3 exit charge then for domestic loads in SW3, with a load factor of 32%, the partial rebalancing would result in a 14% increase in the NTS charge (including standard commodity charge). In no other exit zone would the increase exceed 10%.

If it is thought desirable to limit any increase in NTS charges to say 10% then the increase in the SW3 exit charge could be limited (to 328 p/pdth/a).

## **6. CONCLUSION**

**Transco would welcome respondents' views on:**

- The degree of rebalancing proposed for implementation from October 1998 and the level of any cap on increased charges?**
- The principle of harmonisation of minimum exit charges at both VLDMC and NTS charging zones, and the level of minimum charges that should be set?**

### 1998 NTS CAPACITY CHARGE OPTIONS

All charges in pence per peak day therm per annum

	<b>Bronze book unadjusted 65:35</b>	<b>Re-balanced Max increase 25.0% Max decrease 13.7%</b>	<b>98 LRMC 75:25</b>	<b>97 LRMC 75:25</b>
<b>Total cost recovery (£m)</b>	<b>£335.8m</b>	<b>£359.6m</b>	<b>£359.6m</b>	<b>359.6m</b>
BACTON	11	10	10	7
EASINGTON	26	26	24	30
ROUGH	26	26	24	30
HORNSEA	26	26	24	30
THEDDLETHORPE	26	26	24	30
ST FERGUS	212	253	277	253
BARROW	82	71	53	35
TEESSIDE	44	55	55	67
WYTCHE FARM	0	0	0	0
CAYTHORPE	24	22	21	22
ISLE OF GRAIN	-6	-6	-6	-6
AVONMOUTH	-12	-12	-12	-12
DYNEVOR ARMS	-10	-10	-10	-10
GLENMAVIS	124	113	113	74
PARTINGTON	57	49	18	7
BURTON PT	72	62	4	7
HATFIELD M	26	26	22	30
SC1	7	7	10	7
SC2	7	7	30	7
SC4	10	10	10	7
NO1	36	31	10	7
NO2	65	56	10	7
NW1	93	80	22	30
NW2	112	97	55	45
NE1	47	41	10	7
NE2	31	27	10	7
NE3	31	27	10	7
EM1	27	27	27	9
EM2	31	27	10	7
EM3	70	70	76	61
EM4	71	71	135	70
WM1	101	87	38	47
WM2	101	96	96	51
WM3	164	142	142	105
WA1	133	133	147	62
WA2	291	258	258	192
EA1	46	46	33	63
EA2	111	125	170	125
EA3	81	70	33	70
EA4	111	139	181	160
NT1	145	182	260	362
NT2	181	176	169	176
NT3	122	152	190	217
SE1	205	177	82	98
SE2	145	182	260	372
SO1	140	175	178	257
SO2	194	242	324	393
SW1	177	157	157	144
SW2	225	254	254	317
SW3	275	344	441	405