

TRANSCO PRICING DISCUSSION PAPER PD10

Balance of Transportation Charges

1. INTRODUCTION

The indicative transportation charges proposed for implementation on 1 October 2000 are based on the separation of the price control into Transportation, Metering and Meter Reading with effect from 1 April 2000. In accordance with Transco's Transportation Charging Methodology, the levels of the components of the transportation charges, namely NTS, LDZ and non-metering customer, are based on cost pools derived from Transco's ABC cost base for the year ending December 1999. This discussion paper sets out the split of the price control and the cost pools. The paper also provides a view of the rebalanced charges compared with the present structure and an analysis of the impact of the changes on the charges for typical loads. The paper does not deal with Meter Reading charges as they are already separate from the transportation charges.

2. PRICE CONTROL SEPARATION

Until this year Transco has had a single price control covering Transportation, Metering and Meter Reading, although Meter Reading has been subject to a separate Cost Pass Through arrangement and Meter Reading charges are not included as part of transportation charges. The table below shows the proposed allocation of allowed revenue between Transportation and Metering under the expected price control separation compared with the split that would be obtained on the basis of the present charges and metering rebates.

Table 1. Proposed split of Allowed Revenue into Transportation and Metering (Formula year April 2000-March 2001)

	Based on existing charges/rebates (£m)	Based on proposed split of allowed revenue (£m)	% Change
Transportation	2,658	2,518	-5.3
Metering	268	407	52
Total	2,926	2,925	0

The main feature of the proposed split is that the Metering allowed revenue is some 50% higher than the level implied by the current metering charges and rebates, with an offsetting reduction in the level of transportation charges. PC54 contains details of the proposed disaggregated metering charges which Transco proposes to implement from 1 October 2000.

3. BALANCE OF CHARGES

The separation of the Price Control requires a change from previous years when the balance of charges was determined entirely by the ABC cost pools analysis. This year the split between Transportation and Metering is determined by the allowed revenue within each price control formula. The elements within Transportation are then determined by the cost pool analysis, in accordance with the Transportation Charging Methodology.

3.1 Transportation Cost Pools

Transco's transportation charges are set to be within the allowed revenue under the Price Control Formula. For the purposes of setting the transportation charges Transco's system is split into three tiers: the National Transmission System (NTS), the Local Distribution Zones (LDZs) and customer related activities. The latter used to include Metering but this is now separate under the new arrangements.

For each of these elements Transco's ABC cost base, which covers revenue costs and depreciation incurred, is the source of the basic cost information, but a number of adjustments are made so that the costs used reflect ongoing costs. The ABC costs do not contain any return element, so this is added in based on asset values in each ABC cost category. This asset based adjustment is scaled so that the final cost pools sum to the target allowed revenue.

Transco has calculated the indicative charges on the basis of generating revenue for the pricing year October 2000-September 2001, which is consistent with the split price control formula. On this basis, the indicative transportation charges have been set so as to be, on average, 5.5% below the present level. The resulting cost pool breakdown, used as the basis for the indicative October 2000 charges, is set out below:

Table 2: 2000 Pricing Cost Pool Breakdown

	NTS	LDZ	Non-Meter Customer	Total Transportation
Cost Pool %	19.1	57.4	23.5	100

4. PRICING TIER CHANGES

Table 3 below compares the indicative balance of charges with the present balance set in October 1999.

In the new cost pool proportions (Column B) the main change is a rise in the NTS proportion offset by small falls in the LDZ and Customer proportions. In order to reflect this revised balance the charges would need to be changed by the percentages shown in Column C. These changes are combined with the indicative 5.5% average reduction in transportation charges to produce the resulting total changes in the average level of unit charges in each area as shown in Column D.

Table 3: Changes in Balance of Transportation Charges

	A	B	C	D
	Present balance of charges	2000 Cost Pools Split	Percentage Rebalancing Change (B/A)	Proposed Change in Levels
NTS	17.6	19.1	8.5%	2.5
LDZ	58.6	57.4	-2%	-7.4
Non-meter Customer	23.8	23.5	-1.3%	-6.7
Total	100	100	0%	-5.5

5. ANALYSIS OF THE IMPACT OF THE CHANGES BY CUSTOMER

The impact of the proposed changes to the transportation charges, excluding metering charges, is shown in Table 4a below. The same analysis, but including the metering charges, is shown in Table 4b below.

Table 4a - Impact of Proposed Charges to Shippers for Typical Supply Points (Excluding Metering Charges)

		AQ	Pence / kWh			
		kWh / GWh	May - 00	Oct - 00	Change	%
Domestic	Small	8,500	0.4998	0.4605	-0.0393	-7.9%
	Medium	19,000	0.4998	0.4607	-0.0391	-7.8%
	Large	30,000	0.4999	0.4608	-0.0391	-7.8%
LDZ	Firm Contract	0.15	0.3576	0.3485	-0.0091	-2.5%
	Industrial & Commercial	0.6	0.2884	0.2896	0.0012	0.4%
		1.5	0.2484	0.2533	0.0049	2.0%
		3	0.2278	0.2341	0.0063	2.8%
		6	0.2111	0.2172	0.0061	2.9%
		30	0.1614	0.1660	0.0046	2.8%
		150	0.1235	0.1238	0.0003	0.2%
LDZ	Interruptible	15	0.0962	0.1036	0.0074	7.7%
		30	0.0885	0.0956	0.0071	8.0%
		150	0.0731	0.0774	0.0043	5.9%
NTS	Firm	6,000	0.0345	0.0360	0.0015	4.3%
	Interruptible	6,000	0.0276	0.0290	0.0014	5.1%

Although the average change, excluding metering charges, is a reduction of 5.5%, the largest percentage reduction is for domestic supply points because they benefit most from the re-balancing of LDZ charges. Charges to industrial and commercial supply points, on the other hand, generally increase due primarily to the LDZ charge re-balancing.

**Table 4b- Impact of Proposed Charges to Shippers for Typical Supply Points
(Including Metering Charges)**

		Annual Qty KWh /GWh	Pence / kWh			
			May - 00	Oct - 00	Change	%
Domestic	PPM	8,500	0.7351	0.7925	0.0574	7.8%
	Small	8,500	0.6174	0.6231	-0.0057	0.1%
	Medium	19,000	0.5524	0.5334	-0.0190	-3.4%
	Large	30,000	0.5333	0.5069	-0.0264	-4.9%
LDZ	Firm Contract	0.15	0.3997	0.4071	-0.0074	1.8%
	Industrial & Commercial	0.6	0.3232	0.3505	0.0273	8.4%
		1.5	0.2725	0.3102	0.0377	13.8%
		3	0.2465	0.2931	0.0466	18.9%
		6	0.2257	0.2578	0.0321	14.2%
		3	0.1682	0.1797	0.0115	6.8%
		150	0.1269	0.1278	0.0009	0.7%
LDZ	Interruptible	15	0.1091	0.1287	0.0196	18.0%
		30	0.0970	0.1093	0.0123	12.7%
		150	0.0766	0.0814	0.0048	6.3%
NTS	Firm	6,000	0.0345	0.0362	0.0017	4.9%
	Interruptible	6,000	0.0276	0.0292	0.0016	5.8%

Bringing metering charges into line with the proposed metering price control results in an average increase of approximately 50% compared to the present level of the rebates. For supply points with prepayment meters there is an additional increase as the prepayment surcharge rises from £10 to £15.

The change in metering charges relating to industrial and commercial supply points varies widely. This is as a result of moving from rebates based on supply point peak load to more cost reflective charges that reflect the number and types of meter present. Note that metering charges in respect of NTS supply points reflect meter maintenance costs only.

6. CHARGING FOR SPECIFIC SERVICES

The majority of Transco's income comes from the published transportation charges which are paid by all shippers. However, some shippers require specific services which are not required by all other shippers, for example special allocation arrangements. Consistent with its PGT Licence requirements, Transco believes it is more equitable to levy specific cost-reflective charges for these services than to provide a cross-subsidy to some shippers from those who do not use these services.

The income from these charges for specific services is included as part of the regulated transportation income.

The methodology for deriving these charges was described in the paper "Charging for Specific Services - Cost Assignment Methodology" published by Transco in May 1999. It is not intended to re-publish this paper as the methodology has not changed.

However the uplifts used as part of this methodology to reflect support and sustaining costs in the specific charges have been updated based on the 1999 ABC costs. The table below shows the uplifts for Shipper Services, Meter Reading and Meter Work for the current year, based on the 1999 ABC costs compared with last year's uplift based on the 1998 ABC costs.

	1999	1998
	%	%
Shipper Services	150	145
Meter Reading	150	115
Meter Work	199	212

The appropriate uplift is applied to direct labour costs to arrive at the full cost of providing a specific service.

QUESTION FOR DISCUSSION

Transco would welcome respondents' views on the appropriateness of the degree of rebalancing of transportation charges set out in this discussion paper.