

TRANSCO PRICING DISCUSSION PAPER PD14

Balance of Transportation Charges and Indicative Charges from April 2002

1. INTRODUCTION

The indicative transportation charges proposed for implementation on 1 April 2002 are based on the separation of the transportation price control into separate price controls for the LDZs and for the NTS, and within the NTS separate treatment of the Transmission Asset Owner (TO) and System Operator (SO). Separate price controls for Metering and Meter Reading have already been implemented with effect from 1 April 2000. Currently, in line with Transco's Transportation Charging Methodology, the share of allowed revenue to be recovered from each of the components of the main transportation charges, namely NTS, LDZ system and LDZ customer, has been based on cost pools derived from Transco's ABC cost base. Under the new price control proposals it is not necessary to use the cost pools to determine the level of NTS allowed revenue, as this will be determined by the price controls.

However the cost pools are still used to determine a cost reflective split of LDZ allowed revenue between LDZ system charges and the LDZ customer charge. This discussion paper sets out the split of the price control and the relevant 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 associated with a range of typical loads. The paper does not deal with Metering or Meter Reading charges.

The indicative charges from April 2002 are shown in Appendix 1.

2. PRICE CONTROL SEPARATION

With effect from April 2000 separate price controls were implemented for Transportation, Metering and Meter Reading. Under the terms of the new price control starting from April 2002 the transportation price control will be split into LDZs and NTS, with the NTS further divided into NTS TO and SO.

Transco has accepted the final proposals with regard to the NTS TO and LDZ components. However, the SO component is at present the subject of Ofgem consultation following initial proposals, and a revised Licence condition setting out the detailed price control requirements is not yet in place. The indicative charges have thus been set based on Transco's interpretation of the information in Ofgem's final TO proposals and initial SO incentive proposals.

The table overleaf shows Transco's estimate of allowed transportation revenue for the NTS and LDZs for 2002/03 compared to 2001/02.

Table 1. NTS and LDZ Allowed Revenue

	Formula Year 2002/03 (Based on new Price Controls) £m	Formula Year 2001/02 (Based on Cost Pool Analysis) £m
NTS	499	482
LDZ	2061	2081
Total	2560	2563

3. LEVEL OF INDICATIVE CHARGES

The indicative transportation charges for application from 1 April 2002 are on average 18% higher than those in place at present. The reasons for the increase are:

Factor	Impact	Explanation
Ending the 15% reduction in charges introduced to offset potential over-recovery following the February 2001 NTS entry capacity auctions	+17.6%	Charges have been reduced by 15% for the period 1 June 2001 to 31 March 2002 in order to offset potential over-recovery following the Feb 2001 NTS entry capacity auctions. The charges from 1 April 2002 have been set at a level consistent with target auction revenue being achieved.
Periodic Review Impact	-3%	Ofgem final proposals for transportation.
Inflation Increase	+2%	Indexation of allowed revenue
Under-recovery carried forward	+1.2%	Present estimates suggest that collected income will be £30m below allowed revenue in the present formula year. This will be added to allowed revenue for 2002/03.
Other forecasting adjustments	+0.2%	Adjustment needed to keep projected allowed and collected revenue consistent given demand projections.
Net Increase Proposed	+18%	Consistent with collecting allowed revenue projected for 2002/03.

4. BALANCE OF CHARGES

With the balance of revenue between the NTS and LDZs set by the proposed price control formulae, cost pool analysis is used to determine the cost-reflective split of the main elements within LDZ charges, in accordance with the Transportation Charging Methodology.

4.1 LDZ Cost Pools

LDZ allowed revenue is recovered through two types of charge, the LDZ system charges (capacity and commodity charges) and the customer charge.

Transco's ABC model has in the past provided the basis for the cost pool analysis. This year, in order to ensure consistency with the Periodic Review the cost pools have been based on the Transactions model which was used to provide cost information for the Periodic Review. The Transactions model itself is a development of the ABC model. This has inevitably led to some

differences in the way some costs have been treated relative to last year, but this has not led to any significant changes in the balance of cost pools.

The cost model does not include return on assets, and so a return element is added based on asset values in each cost pool category. This asset based adjustment is scaled so that the final cost pools sum to the target allowed revenue. The resulting cost pool breakdown, used as the basis for the indicative April 2002 charges, is set out below:

Table 2: 2000 and 2002 LDZ Cost Pool Breakdowns %

Year	LDZ System	LDZ Customer	Total LDZ
2000	71.0	29.0	100
2002	70.9	29.1	100

4.2 Level of LDZ Charges

The indicative charges shown in Appendix 1 have been calculated on the basis of generating revenue for the formula year 2002/03 consistent with the new price controls. On this basis, the indicative LDZ charges have been set so as to be, on average, just under 0.5% below the 1 April 2001 level (i.e. before the 1 June 15% reductions).

4.3 NTS TO and SO Split

The split of allowed revenue between the TO and SO charges is determined by the price control proposals rather than cost pool analysis. Based upon Transco's interpretation of the present proposals, the estimated allowed revenue in formula year 2002/3 would be:

NTS Allowed Revenue 2002/3 £m

TO	SO	Total NTS
391	108	499

5. CHANGES IN THE BALANCE OF REVENUE RECOVERY

Table 3 below compares the balance of revenue recovery based on the indicative charges set to comply with the new price control compared with the balance set in October 2000 under the existing price control. The changes are not large, with the main change being the increase in the share of allowed revenue being recovered through the NTS charges. This reflects the new price control arrangements.

Table 3: Balance of Revenue Recovery under the New Price Control

	A	B	C
	2000 Cost Pools Split %	New Price Control Split %	Percentage Rebalancing Change (B/A)
NTS	19.1	19.5	+2.1%
LDZ System	57.4	57.1	-0.5%
LDZ Customer	23.5	23.4	-0.4%
Total	100	100	0%

6. ANALYSIS OF THE IMPACT OF THE CHANGES BY CUSTOMER

The impact of the proposed changes to transportation charges is shown in Table 4 below. The proposed April 2002 charges are compared with the April 2001 charges, that is the charges before the 15% reductions which took effect on 1 June 2001. This gives a fairer comparison as the 15% reductions were only a temporary re-balancing of the charges to offset the over-recovery which otherwise would have occurred as a result of the February 2001 NTS entry capacity auctions.

Table 4 - Impact of Proposed Charges associated with Typical Supply Points

		AQ MWh	Pence / kWh			
			April 01	April 02	Change	%
Domestic	Small	8.50	0.4614	0.4593	-0.0021	-0.5%
	Medium	19.00	0.4615	0.4597	-0.0018	-0.4%
	Large	30.00	0.4610	0.4591	-0.0019	-0.4%
LDZ	Firm Industrial & Commercial	150	0.3539	0.3517	-0.0022	-0.6%
		600	0.2945	0.3253	0.0308	10.5%
		1,500	0.2602	0.2764	0.0162	6.2%
		3,000	0.2353	0.2409	0.0056	2.4%
		6,000	0.2184	0.2172	-0.0012	-0.5%
		30,000	0.1670	0.1596	-0.0074	-4.4%
		150,000	0.1247	0.1197	-0.0050	-4.0%
LDZ	Interruptible	15,000	0.1040	0.0982	-0.0058	-5.6%
		30,000	0.0960	0.0894	-0.0066	-6.9%
		150,000	0.0778	0.0729	-0.0049	-6.3%
NTS	Firm Interruptible	6,000,000	0.0371	0.0356	-0.0015	-4.0%
		6,000,000	0.0294	0.0272	-0.0022	-7.5%

This suggests there will be a reduction in charges for transportation to end users in most load bands, with the largest reductions being for LDZ interruptible loads and directly connected NTS loads. Charges for transportation to some of the smaller LDZ Industrial and Commercial Firm loads will increase as a result of the proposed re-balancing of LDZ charges. The reasons for this are explained in PC68, Review of LDZ Transportation Charges. However, it should be noted that all of the calculations and illustrative charges assume continuation of the existing approach to charges for transportation to interruptible supply points. If all loads were charged on the same, firm transportation basis, as outlined in Ofgem's SO Incentives Initial Proposals, the resulting pattern of charges could be different.

7. CHARGING FOR SPECIFIC SERVICES

The majority of Transco's transportation income comes from the main transportation charges. However some shippers require specific services which are not required by others. Consistent with its GT Licence requirements, Transco believes it is appropriate to levy specific cost-reflective charges for 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, but it can be viewed on Transco's web site [www.transco.uk.com -Our Publications – Pricing Publications – Archive of Consultation Papers].

The only uplift used in the derivation of transportation charges is the Shippers Services uplift, which relates to office based activities. In October 2000 this was 150%, based on the 1999 costs. This has now been revised upwards to 238% due to improved information being available from the Transactions Model.

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

QUESTION FOR DISCUSSION

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

Appendix 1

INDICATIVE TRANSPORTATION CHARGES FOR 1 APRIL 2002

Table 1:Pricing Tier Average Changes from April 2001 Price Level

NTS Charges	+3.0%
LDZ System Charges	-0.4%
LDZ Customer Charges	-0.3%
Average	+0.3%

Table 2:Indicative NTS (TO) Administered Capacity Charges - April 2002

Note: Charges at entry points are for information only - entry capacity is allocated by means of a price auction, the floor prices for which are derived from these indicative charges.

Capacity Charges pence / peak day kwh / day			Capacity Charges pence / peak day kwh / day		
Entry - Beach	Bacton	0.0009	Exit - NTS Industrial	AM Paper	0.0038
	Easington / Rough	0.0031		BASF Teesside	0.0001
	Theddlethorpe	0.0011		BP Grangemouth	0.0001
	St Fergus	0.0291		BP Saltend (HP)	0.0010
	Teesside	0.0071		Bridgewater Paper	0.0109
	Barrow	0.0042		Brunner Mond	0.0038
Entry - Onshore Fields	Hatfield Moors	0.0032		Hays Chemicals	0.0038
	Wytch Farm	0.0000		ICI Runcorn	0.0111
	Caythorpe	0.0027		Kemira Ince	0.0111
	Burton Point	0.0000		Phillips Seal Sands	0.0001
	Hole House Farm	0.0003		Sappi Paper Mill	0.0093
Entry - Storage	Hornsea	0.0042		Shotton Paper	0.0109
	Glenmavis	0.0146		Terra Billingham	0.0001
	Partington	0.0011		Terra Severnside	0.0163
Entry - CLNG	Avonmouth	0.0000		Zeneca	0.0001
	Dynevor Arms	0.0000	Exit - NTS Power Generation	Baglan Bay PG	0.0234
	Isle of Grain	0.0000		Barking PG	0.0125
Exit LDZ	EA1	0.0032		Brigg PG	0.0006
	EA2	0.0112		Brimsgate PG	0.0134
	EA3	0.0040		Connahs Quay PG	0.0109
	EA4	0.0122		Corby PG	0.0051
	EM1	0.0034		Coryton PG	0.0096
	EM2	0.0008		Cottam PG	0.0006
	EM3	0.0087		Deeside PG	0.0109
	EM4	0.0071		Didcot PG	0.0174
	NE1	0.0001		Great Yarmouth PG	0.0032
	NE2	0.0023		Keadby PG	0.0001
	NE3	0.0012		Kings Lynn PG	0.0031
	NO1	0.0001		Kingsnorth PG	0.0100
	NO2	0.0009		Little Barford PG	0.0061
	NT1	0.0233		Longannet PG	0.0001
	NT2	0.0150		Medway PG	0.0100
	NT3	0.0167		Peterborough PG	0.0031
	NW1	0.0093		Peterhead PG	0.0001
	NW2	0.0083		Rocksavage PG	0.0111
	SC1	0.0001		Rosecote PG	0.0026
	SC2	0.0012		Rye House PG	0.0134
	SC4	0.0001		Saltend PG	0.0010
	SE1	0.0122		Seabank PG	0.0159
	SE2	0.0233		Sellafield PG	0.0026
	SO1	0.0159		South Humber Bank PG	0.0010
	SO2	0.0219		Staythorpe PG	0.0031
	SW1	0.0090		Sutton Bridge PG	0.0021
	SW2	0.0171		Teesside PG	0.0001
	SW3	0.0337		Thornton Curtis PG	0.0006
	WA1	0.0119	Exit - Interconnectors	Bacton I/C	0.0032
	WA2	0.0205		Moffat I/C	0.0001
	WM1	0.0073	Exit - Storage Sites	Hornsea X	0.0010
	WM2	0.0080		Isle of Grain X	0.0100
	WM3	0.0087		Hatfield Moors X	0.0001
				Hole House Farm X	0.0038
				Rough X	0.0012
				Avonmouth X	0.0159
				Dynevor Arms X	0.0205
				Glenmavis X	0.0001
		Partington X		0.0038	
CLNG Credit pence /registered peak day kwh/day					
Entry – CLNG	Avonmouth	0.0093			
	Dynevor Arms	0.0000			
	Isle of Grain	0.0032			

Table 2 Continued

Note: Floor prices have been calculated based on maximum entry capacity levels (including summer flexibility) as published in Ofgem's final proposals (Appendix 3).

System Entry Capacity Auction Floor Prices		MSEC	DSEC	MISEC
Entry – Beach	Bacton	0.0006	0.0004	0.0001
	Easington / Rough	0.0021	0.0014	0.0003
	Theddlethorpe	0.0008	0.0005	0.0001
	St Fergus	0.0199	0.0133	0.0027
	Teesside	0.0049	0.0033	0.0007
	Barrow	0.0029	0.0019	0.0004
Entry - Onshore Fields	Hatfield Moors	0.0024	0.0016	0.0003
	Wytch Farm	0.0000	0.0000	0.0000
	Caythorpe	0.0019	0.0013	0.0003
	Burton Point	0.0000	0.0000	0.0000
	Hole House Farm	0.0002	0.0002	0.0000
Entry – Storage	Hornsea	0.0029	0.0019	0.0004
	Glenmavis	0.0100	0.0067	0.0013
	Partington	0.0008	0.0005	0.0001
Entry – CLNG	Avonmouth	0.0000	0.0000	0.0000
	Dynevor Arms	0.0000	0.0000	0.0000
	Isle of Grain	0.0000	0.0000	0.0000

Table 3: Indicative NTS (SO) Commodity Charges - April 2002

Commodity Charges pence / kwh	
Standard	0.0092
St Fergus Compression	0.0054
Optional	$1203 * (PL^{-0.834}) * D + 363 * (PL^{-0.654})$

Table 4: Indicative LDZ Charges - April 2002

Single Supply Point Charges		
MWh pa	Commodity pence / kwh	Capacity pence / peak day kwh / day
< 73.2	0.1259	0.0471
73.2 – 732	0.1164	0.0437
> 732	$0.7221 * PL^{-0.2121}$	$0.2073 * PL^{-0.1806}$
Subject to minimum	0.0109	0.0048

Connected System Exit Point Charges		
MWh pa	Commodity pence / kwh	Capacity pence / peak day kwh / day
< 73.2	0.1259	0.0471
73.2 – 732	0.1323	0.0489
> 732	$0.6228 * PL^{-0.2005}$	$0.1987 * PL^{-0.1817}$
Subject to minimum	0.0109	0.0048

Optional LDZ Charge pence / peak day kwh day	
Optional	$902 * (PL^{-0.834}) * D + 772 * (PL^{-0.717})$

Table 5: Indicative Customer Charges - April 2002

Single Supply Point Charges				
MWh pa	Commodity pence / kwh	Capacity pence / peak day kwh / day	Fixed pence / supply point / day	
			Read Frequency	Charge
< 73.2	0.1403			
73.2 - 732		0.0017	Non – monthly Monthly	14.7855 15.7432
> 732		0.0359 * (PL) ^ -0.21		

Connected System Exit Point Charges	
Administrative Charge pence / supply point / day	0.5479

Definitions

Term	Definition
D	Direct distance (km) from site or non Transco pipeline to terminal (NTS Optional Tariff)
D	Direct distance (km) from site to an NTS pipeline (LDZ Optional Tariff)
PL	Registered supply point capacity in kwh's
^	To the power of

OTHER CHARGES

System balancing charge

A system balancing commodity charge will be added to the standard NTS commodity charge as at present. For shippers operating wholly under Network Code arrangements the charge will be zero.

Allocation arrangements at Interconnectors

The following allocations charges apply at both interconnectors and apply for each supply point. Allocating daily gas flows between shippers/suppliers can be done either by an appointed agent or by Transco. The same set up charge applies in either case. There is also a daily charge which depends on whether the service is provided through an agent or not:

Set up charge per shipper	£86.00
Daily charge per shipper - Agent service	£1.07
Daily charge per shipper - Transco service	£1.69

Administration charges at Moffat

The following administration charges apply only to the GB-Ireland interconnector at Moffat. The charges, which vary if the service is provided via an agent or Transco, are:

Daily charge per shipper - Agent service	£11.72
Daily charge per shipper - Transco service	£23.44

The charges with or without an agent cover the operation of the flow control valve. In addition the Transco service provides the Exit Flow Profile Notice (EPN).

In the event that the appointed agent fails to provide an EPN to Transco the following additional charge will apply:

EPN Default Charge per shipper per event	£0.49
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Shared supply meter point allocation arrangements

Transco offers an allocations service at single supply points, for daily metered sites consuming more than two million therms per annum.

Allocating daily gas flows between the shippers/suppliers can be done either with an appointed agent or by Transco.

The administration charges which relate to these arrangements are shown below. Individual charges depend on the type of allocation service nominated, and whether the site is telemetered or non-telemetered.

Charges expressed as £ per shipper per supply point

Transco Service	Telemetered	Non-telemetered
Set-up charge	61.00	135.00
Shipper-shipper transfer charge	76.00	144.00
Daily charge	1.89	2.18
 Agent Service	 Telemetered	 Non-telemetered
Set-up charge	61.00	122.00
Shipper-shipper transfer charge	76.00	144.00
Daily charge	1.62	2.07

Must reads

If a shipper is unable to provide meter readings in compliance with the Network Code, then Transco may initiate processes to obtain a meter read, referred to as a 'must read'. A charge will be made for each must read and will depend on the number of meters at a supply point requiring a must read at the same time. If there is one meter at the supply point the charge will be £40.00, for two meters the charge will be £60.00 and for three or more meters the charge will be £80.00. These charges are based on the typical cost of such reads which may include multiple visits to the site and obtaining and executing a warrant of entry.

Opening read estimates

Incoming shippers are required by the Network Code to provide an actual opening meter read to Transco within a window around the date that the supply point transfers. If no read is provided within the period, Transco is required to provide an estimated reading. In respect of supply points with an annual consumption of up to 73,200 kWh, a charge of £7.62 currently applies for each estimate provided, to the extent that an individual shippers opening read performance has fallen below 90% in any month. However the level of the charge is under review as detailed in PC69.