

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0576
"Provision of information relating to the SO commodity charge"
Version 1.0

Date: 09/08/2002
Proposed Implementation Date: 01/10/2002
Urgency: Non--Urgent

Justification

With the introduction of Transco's new SO incentives, there is greater uncertainty over the level of the SO commodity charge. Transco has already announced one significant change in the SO commodity charge this year at short notice. If Transco significantly outperforms (or underperforms) relative to the target level of costs under its incentive scheme, this may require significant changes to the NTS commodity charge. If actual system throughput is significantly different to Transco's forecast, the commodity charge will also need to change to ensure Transco recovers its allowed SO revenue. System throughput may be lower this year than forecast because of the unplanned unavailability of the interconnector in July/August requiring further changes to the SO commodity charge.

Uncertainty about the level of the commodity charge will lead to higher prices for final customers as shippers and suppliers seek larger risk premia when offering annual fixed price contracts to end customers. Uncertainty over the level of the commodity charge would be significantly reduced if Transco published more information to allow shippers to forecast the level of the commodity charge more accurately and better understand and manage these risks. Reducing uncertainty will lead to lower delivered prices to end customers.

Nature of Proposal

To enable shippers and customers to manage the risks associated with volatility in the level of the SO commodity charge, Transco should be obliged to publish sufficient information to allow shippers and customers to forecast the level of charges based on the outturn costs relative to forecast costs used when setting the SO commodity charge.

Transco sets the SO commodity charge at the start of the charging year by as the sum of all of the target level of costs under its SO incentive schemes. It is AEP's understanding that the current SO commodity charge is calculated by first summing the target level of costs for: SO internal costs; SO system balancing incentives; and the NTS exit capacity incentive. The target levels of costs are set out in Ofgem's December 2001 document "Transco NTS SO Incentives 2002-7: Final Proposals" document. Transco then subtracts its estimate of revenue it will receive over the year from users paying the SO optional commodity tariff and the St Fergus compression charge to determine target cost recovery.

This target level of cost recovery is then divided by Transco's forecast of system throughput for the year to determine the SO commodity charge.

Transco should therefore be obliged to publish:

- Transco's forecast of annual system throughput and monthly system throughput for the next charging year at the start of each charging year;
- actual system throughput on a weekly basis;
- Transco's forecast of annual and monthly target costs under the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) at the start of the charging year;
- the sum of outturn costs under the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) on a weekly basis; and
- disaggregated outturn costs for each of the relevant SO incentive schemes (system balancing, SO internal costs and exit capacity) on a quarterly basis.

Transco should be required to publish all of the information listed at the frequencies indicated on the Transco Information Exchange at <http://info.transco.uk.com/>

Purpose of Proposal

Implementing this modification will better facilitate competition between shippers and suppliers. Shippers and suppliers will be able to forecast commodity charges over the year more accurately and will therefore be able to offer more competitive terms to final customers.

Consequence of not making this change

If this modification is not made, shippers and suppliers will charge larger risk premia when offering supply contracts to end customers. This will result in higher prices to customers.

Area of Network Code Concerned

Section V

Proposer's Representative

Stephen Charles Smith

Proposer

Aep Energy Services Ltd

Signature

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