

REVIEW WORKGROUP (REVIEW PROPOSAL 0018)

DEVELOPMENT OF ALLOCATION ARRANGEMENTS AT THE METER POINT

Monthly Report

29 August 1996

The third meeting of the Review Work Group took place at Tottenham Court Road on 6 August 1996.

Review of minutes of last meeting.

No comments were received from the group. TransCo pointed out that the comments from Enron on 'exclusivity' clauses had now been recorded.

Existing Arrangements

BGT raised an issue about the existing arrangements and the charges being discussed as part of the review. BGT have a number of agreements in place with specific end-dates and other agreements which had been subject to roll-over arrangements; BGT wondered whether any charges for the administration of allocations arising from the review would be applied to these existing agreements.

TransCo agreed to report to the group on the treatment of existing agreements with respect to charges, subsequent to discussions with Ofgas.

Review of Actions

Ofgas has reviewed the treatment of costs internally. Ofgas and TransCo are currently discussing the issue of charging for these arrangements with regard to the correct regulatory treatment of the income arising.

TransCo circulated the charging matrix which indicated some indicative charges for allocations. The matrix showed both 'set-up' and 'daily' charges for low (10), medium (50) and high (250) take-up of sites. The charges shown were for relatively simple supply-point arrangements i.e. percentage/tranch allocation of multi-shipper sites, where these are agreed in advance, and with over-runs applied pro-rata.

Complex arrangements, such as those that currently exist for power stations, with provisions for within day re-nomination and retrospective allocations etc., were not included in the matrix. TransCo has done some work on this and experienced difficulty in arriving at a standard cost for, what are, essentially bespoke arrangements.

Whilst the matrix did not include a pence-per-therm indicator the group agreed that the charges detailed would represent, on average, approximately 0.5 p/therm for a 2m therm site and 0.05p/therm for 20m therm site. Shippers were of the opinion that 0.05p/therm was not an unreasonable amount to pay for the service but initial thoughts were that at 0.5p/therm

these arrangements would be less attractive to end-users. However, shippers would need more detail about the service being offered under these arrangements.

TransCo agreed to provide the group with a schedule of activities associated to the costs detailed in the charging matrix.

Group Discussion on Charging Mechanism

'Simple' Arrangements - Powergen questioned how the apportionment of the set-up charges indicated on the matrix would be applied. TransCo confirmed that the effort involved in administering tranches/percentage splits was not proportional to the allocated volumes and that set-up costs were therefore equally applicable to all parties involved. However, the set-up costs for an incoming shipper might be reduced if these arrangements were already in place.

Kinetica confirmed that, at 0.5p/therm these arrangements would be unattractive to his end-users. Powergen would need more information on the actual service being provided for these charges and suggested that TransCo allocate man-hours for each of the activities involved in the arrangements. BGT wanted to know how long the charges indicated would apply; TransCo expected that any charges would be reviewed annually.

It was still unclear from the group discussions to date what the likely demand for this service was. BGT estimated that in the 20mtpa category demand would be limited - many of these sites already have such arrangements. Of the remaining 900 or so 2mtpa plus sites, 10-20% take-up might be expected. However, AGAS could not see any demand in the 2mtpa category for his end-users.

'Complex' Arrangements - TransCo confirmed that complex arrangements as, described above, would need to be assessed for costs individually since the requirements for these tend not to display 'generic' qualities. TransCo also added that much of the activity on power station allocations for instance is not known to TransCo in any case.

Ofgas suggested that TransCo consider producing the detail of the activities, rather than the costs, associated to the current allocations on these sites. TransCo confirmed that the following activity functions would need to be considered: Commercial Services/Service Development, Legal, CPM, Commercial Operations, System Control, Network Planning, Billing.

TransCo agreed to report on the activities associated to the current (complex) allocations.

Disputes - Shippers wanted know how disputes would be resolved and if this process was included in the charging matrix. TransCo confirmed that the matrix assumed a simple pro-rata allocation of gas at the supply point; TransCo would not get involved in the resolution of disputed allocations between shippers in any case.

Regulatory Treatment of Costs - AGAS summarised the progress to date of the group, with regard to the terms of reference of the review; once the actions from this meeting had been completed there remained one outstanding issue to be resolved, a view supported by the group, and that was progress on the regulatory issue between TransCo and Ofgas. Once this has been achieved TransCo will be in a position to submit the Review report to the Modifications Panel.

Next meeting

The date of the next meeting was suspended for the time being pending the outcome of TransCo's discussions with Ofgas on charges. TransCo will issue a draft Modification Report to the group prior to submission and schedule a meeting of the group to discuss the content/conclusions. This meeting is expected to take place mid-September 96 in time for the Modification Panel on 10 October.