Direct Dial: 0171-932-6333

UK Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref : Net/Cod/Mod/428

01 November 2000

Dear Colleague,

Modification Proposal 0428: Optional LDZ Tariff

Ofgem has considered the issues raised in modification proposal 0428: 'Optional LDZ Tariff'. Ofgem has decided to direct UK Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code.

In this letter, we explain the background to the modification proposal and give our reasons for making our decision.

Background to the proposal

In May 2000, Ofgem published a consultation document entitled, 'Review of Transco's LDZ Charging Methodology', that included reference to an optional LDZ tariff. Transco's proposal to introduce the optional LDZ tariff was the subject of Pricing Consultation Paper PC56. Ofgem gave its decision not to veto the proposed change to Transco's pricing methodology on 17 July 2000. This modification proposal allows changes to be made to Transco's network code to allow the implementation of the new tariff.

The modification proposal

This modification proposal should permit the introduction of the optional LDZ tariff that has been developed to reduce the likelihood of users bypassing the LDZ network and connecting directly to the NTS. The proposal should therefore encourage greater utilisation of the system. The introduction of the optional LDZ tariff should also provide a charging methodology that is more appropriate in reflecting the LDZ costs involved in transporting gas to large end-users located close to the NTS.

The optional LDZ rate will be defined by the formula in the Transportation Statement and is a function of two variables – supply point capacity (SOQ) and distance.

Respondents' views

All six respondents gave general support to the proposal although Scottish & Southern Energy (SSE) had concerns over the pricing methodology. Industry views concerning the pricing methodology were considered at the time of the pricing consultation and are therefore outside the scope of the discussion regarding this modification.

Several shippers were concerned over the length of time it had taken Transco to raise this modification. Whilst Ofgem agree that retrospective charging would be inappropriate, we too are concerned at the delay and would welcome Transco's views as to whether a more co-ordinated approach between pricing consultations and associated modifications can be achieved.

We understand that Transco will be proactive in notifying shippers of sites that would benefit from being on the optional tariff and when it is no longer appropriate for them. It is then the responsibility of the shipper to notify the supplier and customer of this information. To withdraw from the optional LDZ tariff, shippers will be required to follow the usual SPA process to revert to standard LDZ charges.

In answer to a concern of BGT's, we acknowledge that the introduction of the proposed tariff will have an impact on LDZ charges for all other Users but we believe that the pricing structure is more cost reflective and hence conducive to UK Transco operating an efficient and economic system.

Ofgem's view

Ofgem's decision not to veto the proposed changes to Transco's pricing methodology means that, in order for Transco to fulfil its licence obligations, we support this modification proposal. We believe that the introduction of an optional LDZ tariff will, by removing the incentive for large users who are located close to the NTS to by-pass Transco's LDZ networks, enhance the efficient and economic operation of Transco's pipelines.

Ofgem's decision

Ofgem have decided to direct Transco to implement this modification as we believe that it better facilitates the achievement of the relevant objectives as outlined under Standard Condition 7 of BG Transco's Public Gas Transporter's licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Lisa Hughes
Head, Network Operations