

## **Modification Proposal 0626 “Structure of the NTS SO Commodity Charge”**

### **Summary**

PC73 “Structure of the NTS SO Commodity Charge” has amended Transco’s pricing methodology so that the NTS SO Commodity Charge should apply to both entry and exit gas flows. At the 3<sup>rd</sup> April 2003 NT&T Workstream meeting attendees identified that the Network Code Modification Proposal 0626, if implemented, would not extend the charging of the SO Commodity Charge to gas flows into and out of Storage Connection Points, as is required in respect of PC 70 “NTS System Operation Transportation Charges”.

Transco indicated that, in the light of the recent Ofgem decision letter in respect of Network Code Modification Proposal 0532 “Application of SO Commodity Charges to all NTS loads”, it considered it preferable to request the Modification Panel on 24<sup>th</sup> April 2003 to approve that Modification Proposal 0626 proceed to consultation to enable, if such Proposal was to be directed by Ofgem, implementation of PC73 on 1<sup>st</sup> October 2003.

Transco noted that it was unlikely that the issue of NTS SO Commodity Charging to Storage Connection Points could be resolved in a similar timescale. However Transco considered the materiality of the introduction of NTS SO Commodity Charge to entry flows to be much greater than that associated with extending the application to Storage Connection Points. This confirmed the view of an earlier NT&T Workstream that the industry should endeavour to implement the entry flow based charging in October 2003 and the implementation of Storage Connection Point charging should be considered from May 2004.

The Workstream asked Transco to justify this position with an explanation as to why Transco concurred with the Workstream view.

This note is therefore designed to inform a Panel decision as to whether Modification Proposal 0626 should be approved to proceed to consultation at the 24<sup>th</sup> April Modification Panel meeting.

### **Supporting Information**

NTS SO Commodity Charge is currently applied to gas quantities exiting the gas transportation system at System Exit Points.

Modification Proposal 0626 proposes that a revised Commodity Charge rate should be applied to both daily input and offtake quantities. Therefore, to recover a similar revenue the current Commodity Charge rate of 0.0177 p/kWh would need to be revised to around 0.0088 p/kWh if the Commodity Charge is levied on both the daily input and offtake quantities. The revised Commodity Charge rate is, as expected, very slightly less than half the current rate.

Whilst Modification Proposal 0626 specifically excludes charging to Storage Connection Points, an assessment of the potential impact of including these sites in the determination of the revised Commodity Charge rate can be made based upon assumptions in respect of the charging and flows associated with Storage Connection Points.

Key assumptions in the assessment are:

- a target revenue of £179m for NTS SO Commodity Charge recovery
- a common charge rate is assumed to apply to all entry and exit flows
- flow data from the period March 2002 – February 2003 has been used to assess the impact.

The price impact has been assessed taking account of two scenarios.

The first is based upon the daily net physical storage flows. Taking the above assumptions into account this would reduce the NTS SO Commodity Charge rate from 0.0088 p/kWh to 0.0085 p/kWh (a reduction of approximately 3.6%). Actual storage flows may be greater than this and so this approach, based on similar storage utilisation, might understate the impact (notwithstanding the influence of the other assumptions).

The second scenario is based upon consideration of the sum of daily UDQIs and UDQOs at Storage Connection Points. Taking the above assumptions into account this would reduce the NTS SO Commodity Charge rate from 0.0088 p/kWh to 0.0084 p/kWh (a reduction of 4.4%). This approach is likely to overstate storage flows and hence may further overstate the impact.

The above analysis illustrates that the application of the NTS SO Commodity Charge to entry flows would be likely to involve a reduction in the NTS SO Commodity Charge rate of approximately 50%, whereas application to Storage Connection Point flows would be likely to have less than a 2% further impact.

Transco therefore would recommend the Network Code Modification Panel approve Modification Proposal 0626 to proceed to consultation to facilitate, if directed by Ofgem, the implementation of NTS SO Commodity Charge application to entry flows from 1<sup>st</sup> October 2003.

Transco would recommend that the issue of the application of NTS SO Commodity Charges to Storage Connection Points be considered with a view to implementation, if appropriate, from the start of the 1<sup>st</sup> May 2004 storage year.