

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0545**  
"Application of SO Commodity Charges to Storage Facilities"  
Version 1.0

**Date:** 18/03/2002

**Proposed Implementation Date:**

**Urgency:** Non-Urgent

**Justification**

The modification proposal is required to reflect an aspect of the proposal contained in the Pricing Consultation paper PC70.

**Nature of Proposal**

The PC70 proposal recommends a methodology for applying the System Operator (SO) commodity charge to be imposed on gas exiting the NTS to a storage site. The proposal eliminates the present provision of commodity charges being applied to all gas leaving the NTS, with the exception of storage sites. Hence the effect of this proposal is that the sum of User Daily Quantity Output (UDQO) shall incur a SO commodity charge regardless of the type of end load.

The SO commodity charge deals solely with the exit of gas from the NTS, however, storage should be considered as a unique NTS exit point. Storage accepts, stores and delivers gas in the network. Unlike other sources of flexibility, storage allows users to respond to the network requirements, through the removal or delivery of gas to the system. The delivery of gas on to the system facilitates Transco in efficiently and economically balancing its system. This modification therefore proposes a commodity charge on gas exiting the system for a storage site, whilst imposing an equivalent credit on gas entering back onto the system better reflecting the perceived cost of delivery into storage, against the benefit of delivery back onto the NTS. The proposal reflects the net position of storage users, allowing a true reflection of the physical flow and hence a more accurate cost recovery mechanism.

In particular, storage has the ability to provide national and locational gas services to Transco within a short delivery time, allowing Transco to fulfil its relevant objectives in Standard Condition 9 of the Gas Transportation licence: (a) the efficient and economic operation by the licensee of its pipeline system.

**Purpose of Proposal**

The proposal seeks to establish the net physical flow of each individual shipper. References to the quantity of gas entering and exiting the NTS shall be considered through the use of UDQOs and UDQIs. The utilisation of these familiar concepts, provides a simple means to derive storage users net physical position over the storage

year. A cost-reflective charging methodology is established through identifying accurately the cost incurred by Transco of each shipper's net physical flow over the storage year, unlike modification proposal 0532.

Proposal 0532, creates a charging methodology based on virtual gas flows, leading to the possibility of an over recovery occurring. The over recovery gained from storage users potentially subsidises other system users. It is vital to ensure that the commodity charge is imposed on physical flows (as it is on other NTS exit points), hence actual gas flows to prevent the discrimination of storage users through over recovery. It is essential to ensure Transco fulfils the relevant objective (a), the efficient and economic operation by the licensee of its pipeline system, through a cost-reflective charging methodology.

**Consequence of not making this change**

As a consequence of PC70 being raised the Network Code shall be inconsistent with the revised transportation charging methodology.

**Area of Network Code Concerned**

B2.13

**Proposer's Representative**

Rekha Patel (Dynergy UK Ltd)

**Proposer**

Rekha Patel (Dynergy UK Ltd)

**Signature**

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