

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0546
"Application of SO Commodity Charges to Storage Facilities"
Version 1.0

Date: 28/03/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

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

Nature of Proposal

PC70 contains a proposal recommending a methodology for applying the System Operator (SO) commodity charge to be imposed on gas exiting the NTS to storage sites. The proposal seeks to eliminate the specific exclusion of storage sites from attracting a commodity charge for gas leaving the NTS system.

The SO commodity charge deals solely with the exit of gas from the NTS, and fails to address the unique contribution that storage has to the overall integrity of the gas transmission system. Storage facilities receive, store and return gas within the transmission network and were constructed as an integral part of the system. Storage facilities provide a unique type of flexibility, similar to that provided by linepack, by enabling the delivery of gas into the system. This availability of gas to the system assists Transco to efficiently and economically balance the transmission network.

However, Transco has indicated that storage facilities do cause costs to the system operator and these costs relate both to general administration and physical operating costs such as compression charges. Account does not appear to have been taken of the benefits of storage in the assessment of the physical costs and this needs to be undertaken. However, it is proposed by this modification that charges are imposed on all NTS connected sites, including storage facilities, in relation to the costs incurred by Transco, thus ensuring that the charges are cost reflective.

Thus we propose two charges should be levied on storage facilities as follows:

- An annual administration charge to cover costs associated with administration services, such as AT Link nominations. This charge should be a uniform charge similar to the existing "Unique Billed Site" charge and should be paid monthly by the system operator.
- A charge to recover the costs associated with the physical movement of gas through the network, to include compression costs. This charge should be based on the location of the individual storage facility and be levied monthly based on the aggregate of the net daily

physical flows into and out of the specific storage facility, distributed on a pro rata basis to the appropriate shippers using the facility.

To determine the costs allocated in b) it would be reasonable to consider projected overall costs associated with compression, general shrinkage costs etc., which would be based on historical cost data. This would establish the allowed revenue.

The charge levied in b) could be extended to encompass all NTS connected sites including power stations and industrial sites, each category having its own specific charge band depending on the site characteristics and location. The rate would therefore vary from 0 p/therm to x p/therm, depending on its contribution to the overall system costs.

This proposal provides a non discriminatory distribution of the costs associated with the physical flows and hence represents an equitable cost recovery mechanism, which meets the requirements of PC70. It also allows Transco to fulfil its relevant objectives under Standard Condition 9 of the Gas Transportation licence, i.e. the efficient and economic operation by the licensee of its pipeline system.

Purpose of Proposal

To provide a non discriminatory charging methodology based on physical flows within the transportation network, unlike modification proposal 0532.

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

Adrian Leaker (Aquila Energy)

Proposer

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Signature

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