

TRANSCO WORKSTREAM REPORT
"Application of SO Commodity Charges to Storage Facilities"
Version 1.0

1. Background to the Modification Proposals

Transco raised Modification Proposal 0532 in order to implement Pricing Consultation 70 (PC70). This included the principle that the SO commodity charge be applied to gas off-taken at Storage Facilities. The Modification Panel at its February meeting decided that the Capacity Workstream would discuss this Modification Proposal. Discussions, therefore, took place at the RGTA/Capacity Workstream Meetings on 27 February 2002, 7 March 2002 and 14 March 2002.

At the Workstream on 14 March 2002, five alternative methods of implementing PC 70 were discussed. Four of these had been presented by Transco on 27 February 2002, the fifth was tabled by Dynegy on the day. The members of the Workstream requested the opportunity to reflect on this fifth alternative and to discuss this at a further meeting. The March Modification Panel therefore received from Transco a Workstream Report that requested further development and this was agreed. In parallel with this, Dynegy further developed the fifth alternative as Modification Proposal 0545 and the March Modification Panel agreed that this should also be developed in the Capacity Workstream.

The Workstream meeting on 14 March 2002 recognised the need for progress and asked Transco to highlight, by means of the RGTA circulation list, that any alternative approaches should be submitted to Transco by 20 March 2002 so that they may be discussed at a meeting of the Capacity Workstream to be held on 21 March 2002. In the event no new proposals were submitted prior to 21 March 2002.

Transco advised the March Modification Panel that it had placed discussion of these two Modification Proposals on the agenda of the Capacity Workstream to be held that afternoon, (21 March 2002). This report outlines the discussions and recommends that both Modification Proposals proceed to consultation.

2. Description of the Modification Proposals

A description of Modification Proposal 0532 and the five alternatives has been included in the Transco Workstream Report presented at the March Modification Panel meeting and copied to those on the RGTA circulation list. Dynegy described Modification Proposal 0545 as follows:

"This modification 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."

More detail is given in the previous Workstream report for Modification Proposal 0532 where it is referred to as "Alternative 5".

3. Workstream Discussion

3.1 Alternative 1

The Workstream did not seek to develop alternative 1 further. Whilst it did not enjoy widespread support, it was the only alternative consistent with the present approach to Interconnectors. Whilst Interconnectors are different to storage facilities, both locations can effectively be both entry and exit points on the same gas flow day. For this reason, alternative 1 will remain as a potential alternative.

3.2 Alternatives 2 and 4

The Workstream also discussed alternatives 2 and 4 and confirmed that these alternatives were not preferred.

3.3 Alternative 3 Development

The Workstream developed alternative 3 as follows:

Step 1

Determine the net quantity injected into storage (NQINJ) on that gas flow day from the quantity injected (QINJ) and quantity withdrawn (QWITD) (where there is a net withdrawal, set NQINJ to zero).

$$NQINJ = \text{Max}((QINJ - QWITD), 0)$$

Step 2

Determine for each User "u" the User Net Quantity Injected (UNQINJ_u) from its UDQO and UDQI. (If a User's UDQI exceeds its UDQO this should be set to zero).

$$UNQINJ_u = \text{Max}((UDQO_u - UDQI_u), 0)$$

Step 3

Calculate the SO commodity charge (SOCC) for each User by applying the product of the SO commodity rate (SOCR) and the net quantity injected to the share that User holds to all "n" Users allocated a positive UNQINJ on that gas flow day at that storage facility.

$$SOCC_u = SOCR * NQINJ * \frac{UNQINJ_u}{\sum_{i=1}^n UNQINJ_i}$$

3.4 Dynegy Proposal (Alternative 5)

Dynegy were invited to describe Modification Proposal 0545 and to comment on the notes made in respect of alternative 5 in Transco's Workstream Report on Modification Proposal 0532.

Dynegy suggested that there was another advantage to their Modification Proposal – that it would encourage development of storage as envisaged by the Department of Trade and Industry. Dynegy also challenged the description of alternative 5 as discriminatory. Some of the other alternatives were considered to be more discriminatory, particularly if a virtual storage service were offered at the same NTS entry/exit point alongside a

physical storage service. In these situations large UDQIs and UDQOs might apply to a particular gas flow day when the physical flow was small or even zero.

In response to a related question of rebates, Transco stated that they believed that both alternatives 2 and 5 might require a Pricing Consultation to address the introduction of new "rebate".

In respect to the issue of redistributive effects identified in respect of alternatives 1 and 5, Transco were invited to comment on the effect these would have on SO commodity charge adjustments. Transco responded that, compared to the other influencing factors arising from variances between forecast and actual incentive performance, the effect of higher/lower than estimated recovery in respect to storage points would be low.

4. **Workstream Conclusion**

Whilst there still existed a range of views on the alternatives for charging and on the respective merits of the two Modification Proposals discussed, the Workstream concluded that there was sufficient understanding to proceed to consultation. Transco would therefore:

- Send this Workstream report to the Modification Panel with a recommendation that both Modification Proposals 0532 and 0545 should proceed to consultation.
- Issue both Modification Reports on the same day with the same deadline for representations (subject to the agreement of the Modification Panel).
- Ensure that the five alternatives are fully described in the draft Modification Reports. Whilst the Workstream has expressed a preference for only three of these alternatives, the consultation process would give an opportunity for respondents to advocate any of the five alternatives.
- Provide legal drafting in the Modification Report for 0532 consistent with alternative 3.

The Modification Panel is therefore requested to agree that Modification Proposals 0532 and 0545 should proceed to consultation.