

Draft Modification Report
Application of SO Commodity Charges to Storage Facilities
Modification Reference Number 0545

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Proposal is as follows:

"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 Outputs (UDQOs) 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 into the network. Unlike other sources of flexibility, storage allows Users to respond to network requirements, through the removal or delivery of gas in 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. The PC70 proposal recommends a methodology for applying the System Operator (SO) commodity charge to be imposed on gas exiting the NTS."

This Proposal was initially discussed in the Capacity Workstream as part of the development process for Modification Proposal 0532. During these discussions Transco agreed to invite representations on this Proposal at the same time as representations on Modification Proposals 0532 and 0547.

2. Transco's Opinion

This Proposal seeks to establish the net physical flow of each individual shipper whereby Users would be charged on the basis of the sum of their UDQOs, but would receive a rebate based on the sum of their UDQIs. The same rate would be applied to both the charge and the rebate. In respect of net charges/rebates, this would mean that a User that injected more

gas into storage than it withdrew, would face a net cost, but a User that withdrew more than it injected, would receive a net income. If withdrawals in aggregate equalled injection there would be no net income for gas transported to storage facilities. This is similar to the present situation whereby Users only pay in respect of gas consumed or vented on site. Unlike the four alternatives proposed under Modification Proposal 0532, in respect of which the Draft Modification Report has been issued simultaneously, this Proposal would create charging based on total gas flows over the storage year, rather than over each gas flow day.

Transco believes that as the SO costs tend to be associated with physical flows on individual days, charging based upon net daily flows would be more cost reflective. In particular, netting out of flows over a period longer than a day could be considered as leading to non-storage users subsidising storage users.

Transco is aware of the contribution that storage makes in areas such as maintenance of system security. It is, however, difficult to argue that its contribution is fundamentally different to other means of matching supply and demand, such as use of interruption. Review and development of charges that incentivise maintenance and supply security should not therefore be focused exclusively on storage. An allowance should be made for the selection, by individual Users, of supply or demand-side alternatives.

Transco does not therefore recommend implementation of this Modification

3. Extent to which the proposed modification would better facilitate the relevant objectives

The Proposer believes that by using a cost-reflective methodology Transco would fulfil the Relevant Objective a) the efficient and economic operation by the licensee of its pipeline system. Transco, however, as expressed above, believes the Proposal is less cost reflective than charging based on daily flows.

4. The implications for Transco of implementing the Modification Proposal , including a) implications for the operation of the System:

Transco has not identified any implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco would incur costs in amending its UK-Link system. The extent of these costs has not been identified at this stage.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco is not recommending implementation of this Modification Proposal. However, if this Proposal were implemented, any recovery of costs would be handled through the usual channels.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is not aware of any consequences this proposal would have on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco does not anticipate that there would be any consequences on the level of contractual risk under the Network Code, as a result of implementing this Modification Proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco has identified that systems development would be required by both Users and Transco.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to alter their systems and processes to accommodate implementation of this Modification Proposal.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Transco has identified that the introduction of additional costs may have implications for the value placed on storage services by storage users.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco does not anticipate any consequences on the legislative and regulatory obligations and contractual relationships of each User and non-Network party of implementing the Modification Proposal.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

- Simple to operate
- Would encourage effective cycling of storage quantities and use of option contracts.

Disadvantages:

- Not wholly consistent with the spirit of PC70 objectives

- Potentially discriminatory as non-storage users could be regarded as subsidising storage users
- Payment of rebates would require a change to Transco's Transportation Charging which would require consultation
- Redistributive effect on charges following SO charge period(s)

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco now seeks representations in respect of this Modification Proposal.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Implementation of a Modification proposal is required to enable the implementation of SO Commodity Charges to all NTS loads as set out in PC70.

14. Programme of works required as a consequence of implementing the Modification Proposal

Systems development work would be required to enable implementation of this Modification Proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

In view of Transco's recommendation, no implementation timetable is proposed.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of this Modification Proposal.

17. Text

Transco does not recommend implementation of this Modification Proposal and therefore no legal text is provided.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: