

Modification Report
Application of SO Commodity Charges to Storage Facilities
Modification Reference Number 0545
Version 1.0

This 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 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.

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 was 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 Proposal.

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 this 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)

Modification Proposals 0532, 0545 and 0547 were issued simultaneously for consultation. Some respondents requested that their general comments in response to Modification Proposal 0532 be considered alongside their representations to this Modification Proposal. The following tabulates 10 responses received for Modification Proposal 0545:

Respondent	Response
SSE Energy Supply Ltd (SSE)	Against
PowerGen UK plc (PG)	Against
British Gas Trading (BGT)	Against
AEP Energy Services Ltd (AEP)	Against
Shell Gas Direct (SGD)	Against
Scottish Power (SP)	Against
London Electricity plc (LE)	For
Energy-Koch Trading Europe Ltd (EKTL)	Against
Dynegy UK Ltd (DYN)	Recommends development of Modification Proposal 0546 before concluding its response.
BG Group (BG)	Against

In addition, a response was received from the Association of Electricity Producers after the consultation close-out period.

SSE was of the opinion that "gas injected to and withdrawn from storage by a User effectively uses the transportation system on two separate occasions, and therefore it is more appropriate that the charges should be based on daily net flows".

PG confirmed its lack of support for the Proposal "because its proposed rebate simply nullifies the impact of PC70 rather than providing a mechanism to fairly allocate SO charges between Storage Users. "

BGT confirmed it does not support implementation of the Proposal because "it is practical to align the calculations with the standard commercial time period for the gas regime and therefore should be calculated on a net daily physical flow".

AEP did not believe implementation of the Proposal would better facilitate the relevant objectives.

SGD considered that the Proposal "undermines or even reverses the intent of PC70 which was to charge all users a share to the SO commodity cost". SGD considered it would be discriminatory for storage to be given special treatment and implementation of this Proposal would "undermine effective competition between shippers."

SP stated that "whilst understanding the main motivation behind the Proposal. SP believes that the SO commodity charge should apply not only at exit points, but should be reflective of loads through the system for end-user purposes."

LE supported implementation of the Proposal as it placed value on storage withdrawal and would not require the level of systems changes and resources that daily positions would. LE requested that the concept of monthly charging be considered rather than the yearly payment for injection. EKTL and BG did not support implementation of the Proposal.

DYN stated that the Proposal recognised the benefits unique storage sites provide to the NTS through its methodology, but advised that it wished to see the development of Modification Proposal 0546 before concluding its support.

The Association of Electricity Producers did not support implementation of the Proposal.

Transco's Opinion

Transco notes that the majority of respondents are opposed to the implementation of this Modification Proposal.

Transco considers that it would be more cost reflective to apply the SO Commodity Charge on the basis of daily flows. It also agrees that implementation of the proposed rebate would essentially remove the intended impact of PC70 on the transportation charges applied to storage flows. Whilst Transco recognises the security benefit that may be provided by storage, it considers that this Proposal does not constitute a way of incentivising such provision, if such incentivisation were to be proposed.

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. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: