

TRANSCO WORKSTREAM REPORT
"Application of SO Commodity Charges to Storage Facilities"
Version 2.0

1 Background to the Modification Proposal

Aquila Energy launched Modification Proposal 0546 as an alternative to Modification Proposals 0532 (Transco) and 0545 (Dynergy) and prior to the issue of Modification Proposal 0547 (Entergy-Koch). All the Proposals had been raised to reflect an aspect of proposal contained in Pricing Consultation PC70. Proposals 0532, 0545 and 0547 have concluded their consultation and Final Modification Reports will be issued by 18 July 2002.

The June Modification Panel concluded that this Proposal required further development before consideration could be given and requested Transco to liaise with Aquila. Transco reminded the July PSS Workstream that Aquila had made the Proposal in the knowledge that further development was required and had invited suggestions.

2 Description of the Modification Proposal

The Proposal was as follows:

"The proposal seeks to eliminate the specific exclusion of storage sites from attracting a commodity charge for gas leaving the NTS system.

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."

3 Conclusion

Although Transco suggested that development of this Modification Proposal should not proceed until the outcome of Modification Proposals 0532, 0545 and 0547 were known, the Workstream concluded that a recommendation should be made to the Modification Panel that the Proposal proceed to development.

Terms of reference for the development group were recommended to be as follows:

- To consider the way in which Modification Proposal 0546: "Application of Storage Commodity Charges to Storage Facilities", as initiated by Aquila Energy, can be developed to reflect the principles of Pricing Consultation 70 (PC70) for potential implementation on 1 October 2003;
- To consider implementation to reflect the outcome of Pricing Consultation 73 (PC73).