TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0455
"Application of the Optional NTS Commodity Rate"
Version 1.0

Date: 07 February 2001

Proposed Implementation Date: 1 April 2001

Urgency: Non-Urgent

Justification

Currently the Network Code provides for an Optional NTS Commodity Rate at NTS Exit Points. This Optional Rate was introduced to reduce the commercial incentive on certain Exit Points located close to System Entry Points to build pipelines to bypass the NTS.

The mechanism for redistributing revenue associated with auctions of Entry Capacity provides for a reduction in the NTS commodity charge when there is an over-recovery against allowed revenues. Exit Points registered for the Optional Rate may therefore be paying a higher NTS Commodity Charge than other Exit Points. This situation arises since Transco specifically excluded adjustments to the Optional Rate as part of the consultation on changes to the pricing methodology, which introduced the revenue redistribution mechanism (PC60). This effectively reinforces the incentive to build pipelines to bypass the NTS.

It is recognised that there might be occasion when there is an under-recovery against allowed revenues, such that the standard NTS Commodity Charge would rise and the magnitude of the benefit to Exit Points registered for the Optional Commodity Rate would increase. Given the outcome of the auctions which have taken place to date, this has not yet been seen. Indeed it could be argued that the volatility in NTS Entry and Commodity Charges in recent months itself creates an incentive to invest in NTS bypass pipelines.

Notwithstanding these incentives, shippers could ensure that sites registered for the Optional NTS Commodity Rate benefit from the standard commodity rate when it is lower, by re-registering the site. This process is administratively cumbersome for both shipper and Transco: as these sites are Unique Sites this is a paper process. This process also results in the creation of a new logical meter number, which would need to be entered into IT systems, and amended in operational procedures and documentation relating to allocation arrangements.

In addition when the standard NTS Commodity Rate is next revised it might be necessary to re-register the site again.

To reduce this administrative burden the Network Code should be modified such that sites are billed at the lowest prevailing rate available to that site. This proposal would also go some way to addressing the incentives to bypass the NTS.

This proposal should be implemented on 1 April 2001 at the latest, as this is the next date on which a change to the NTS Commodity Charge is likely. The implementation of Modification 0453 now means that any adjustment to the NTS Commodity Charge would not be known until 10 March 2001.

Nature of Proposal

To define the Applicable Commodity Rate for Exit Points registered for the Optional NTS Commodity Rate as the lower of the standard NTS Commodity rate and the Optional NTS Commodity Rate.

Purpose of Proposal

To remove the potential requirement for re-registration of sites eligible for the Optional NTS Commodity Rate each time the NTS commodity charge changes, currently at intervals of six months or less.

Consequence of not making this change

Transco and shippers would continue to face the administrative burden of potentially re-registering sites eligible for the Optional NTS Commodity Rate each time the NTS Commodity Rate is revised.

As the auctions will not have been held in sufficient time for re-registration to take place before the first day of the NTS commodity charge reduction applies, Exit Points eligible for the Optional NTS Commodity Rate would continue to face non cost-reflective transportation commodity charges.

Such Exit Points might be encouraged to bypass Transco’s system as there would no longer be an economic incentive to utilise Transco’s system. As a result, costs to all users could increase in the longer-term.

Area of Network Code Concerned

Section B 3.5.3

Proposer's Representative: Katherine Befroy

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Position: Gas Market Advisor

C**ompany:** Scottish and Southern Energy plc.

The proposal is also supported by Innogy, Innogy Cogen and the Association of Electricity Producers.

Signature