

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0459
"Rebalancing System Entry Capacity charges with respect to Barrow and St Fergus System
Entry Points"
Version 1.0

Date: 21 March 2001

Proposed Implementation Date: 1 October 2001

Urgency: Non-Urgent

Justification:

This modification is necessary to eliminate the discriminatory and anti-competitive price differentials in system entry charges which exist between Barrow and St Fergus. Because of Barrow's intrinsic dependence upon St Fergus, linkage must be made between the system entry charges at these locations.

This proposal is in line with Ofgem's statement in the February 2001 consultation document "Further Reform of the Gas Balancing Regime" (item 6.44), "...any costs associated with quality issues are appropriately targeted to those shippers who require the service."

The auction process for monthly system entry capacity has led to a large differential in cost between St Fergus system entry point and Barrow system entry point which is inequitable, unfair, discriminatory and anti-competitive.

This proposal seeks to reflect the value of St Fergus capacity to Barrow shippers. Barrow shippers should fully contribute for their dependence on gas delivered at St Fergus, which allows their gas to be deemed to meet Transco's system entry specification. Barrow users are currently heavily subsidised by St Fergus users, who are required to pay extremely high prices for entry capacity in the MSEC auction process, while Barrow entry capacity continues to clear at low reserve prices due to the lack of competition for capacity at that location. The auction processes implemented under NGTA now define the entry capacity regime as value-reflective, as opposed to cost-reflective, therefore Barrow costs should be adjusted to reflect the real value of the dependence upon St Fergus gas.

Nature of Proposal:

It is proposed that a levy is charged to users delivering gas at Barrow entry point to reflect the dependence which Barrow gas has on St Fergus gas, which allows Barrow gas to be deemed to meet Transco's entry specification.

The revenue from the levy will be paid to St Fergus users, based on actual usage of the St Fergus system entry point (UDQI's).

The levy should be linked to the ratio of St Fergus gas to Barrow gas deemed necessary by Transco to mix in Transco's NTS at Lupton, in order to allow Barrow gas to be deemed to meet the required entry specification for Transco's pipeline system.

It is proposed that the ratio of St Fergus to Barrow gas required for mixing, be used to derive an adjusted price differential between the two entry points, for each month, using the results from the MSEC auction process. The adjustment will become an additional system entry charge for Barrow users, and will generate revenue which will be passed to St Fergus users, to offset their system entry charges.

The levy would be calculated using the following mechanism:

On days when the required volume of St Fergus mixing gas is equal to or greater than the volume flowing from Barrow, the differential between the system entry charges at Barrow and St Fergus should be zero. Therefore the following mechanism is used to make the nominal system entry charges equal.

Example 1:

MSEC April;

WAP top 50%, Barrow 0.0066 p/kWh, St Fergus 0.2623 p/kWh

hence differential = $0.2623 - 0.0066 = \underline{0.2557 \text{ p/kWh}}$.

Assume actual flows:

Barrow UDQI = 500 GWh

St Fergus UDQI = 1350 GWh

And mixing ratio is 1:1 (Barrow : St Fergus)

Price differential should be zero, therefore add to Barrow price 50% of the published MSEC differential:

i.e. $0.2557/2 = 0.1279 \text{ p/kWh}$

hence Barrow attracts a levy of 0.1279 p/kWh.

Applied to Barrow UDQI, 500 GWh generates £639,000 charge.

Smear to St Fergus UDQI, 1350 GWh, provides 0.047 p/kWh payment to St Fergus users.

Example 2:

MSEC July;

WAP top 50%, Barrow 0.0066 p/kWh, St Fergus 0.2920 p/kWh

hence differential = $0.2920 - 0.0066 = \underline{0.2854 \text{ p/kWh}}$

Assume actual flows:

Barrow UDQI = 100 GWh

St Fergus UDQI = 500 GWh

And mixing ratio is 1 : 3 (Barrow : St Fergus)

Price differential should be zero, therefore add to Barrow price 50% of the published MSEC differential:

i.e. $0.2854/2 = 0.1427 \text{ p/kWh}$

hence Barrow attracts a levy of 0.1427 p/kWh.

Applied to Barrow UDQI, 100 GWh generates £142,700 charge.

Smear to St Fergus UDQI, 500 GWh, provides 0.0285 p/kWh payment to St Fergus users.

On days when the requirement for St Fergus mixing gas is less than the volume flowing from Barrow, the differential should be adjusted to reflect the actual mixing ratio:

Example 3:

MSEC April;

WAP top 50%, Barrow 0.0066 p/kWh, St Fergus 0.2623 p/kWh
hence differential = $0.2623 - 0.0066 = \underline{0.2557 \text{ p/kWh}}$.

Assume actual flows:
Barrow UDQI = 500 GWh
St Fergus UDQI = 1350 GWh
And mixing ratio is 2:1 (Barrow : St Fergus)

Price differential should be adjusted to reflect 2:1 mixing ratio, therefore add to Barrow price 33% of the published MSEC differential:
i.e. $0.2557/3 = 0.0852 \text{ p/kWh}$

hence Barrow attracts a levy of 0.0852 p/kWh.

Applied to Barrow UDQI, 500 GWh generates £426,000 charge.
Smeared to St Fergus UDQI, 1350 GWh, provides 0.032 p/kWh payment to St Fergus users.

Example 4:

MSEC July;
WAP top 50%, Barrow 0.0066 p/kWh, St Fergus 0.2920 p/kWh
hence differential = $0.2920 - 0.0066 = \underline{0.2854 \text{ p/kWh}}$

Assume actual flows:
Barrow UDQI = 100 GWh
St Fergus UDQI = 500 GWh
And mixing ratio is 3:1 (Barrow : St Fergus)

Price differential should be adjusted to reflect 3:1 mixing ratio, therefore add to Barrow price 25% of the published MSEC differential:

i.e. $0.2854/4 = 0.0714 \text{ p/kWh}$

hence Barrow attracts a levy of 0.0714 p/kWh.

Applied to Barrow UDQI, 100 GWh generates £71,400 charge.
Smeared to St Fergus UDQI, 500 GWh, provides 0.0142 p/kWh payment to St Fergus users.

The proposal that the levy is Barrow flow-related ensures that at low Barrow flows there would be a proportionately low additional charge, with low payments to St Fergus users, and vice-versa for high Barrow flows.

Options for assessing the ratio include:

Daily - Transco can assess the mixing ratio required on each day, and the levy can be applied daily on a variable basis, and included in the monthly invoicing cycle, as a charge to Barrow users and a balancing payment to St Fergus users.

Monthly - Transco can assess the mixing ratio required on each day in a month, and the weighted average taken, so that the levy can be applied on a monthly averaged basis. This levy can also be included in the monthly invoicing cycle.

Six monthly - To correspond to the current MSEC auction periods, the daily or monthly process can be applied over a six-monthly period, and the results used for the six months following.

The revenues recovered by Transco in the MSEC auction process are unaffected by this proposal.

Prices set by the MSEC auction processes are unaffected by this proposal.

Purpose of Proposal:

To eliminate the cross-subsidy which exists in the current Network Code charging regime, which allows users at Barrow to gain unfair commercial advantage from other users, and thus inhibits competition.

The cost of entry to Transco's pipeline system at Barrow should reflect the value to Barrow users of the gas being delivered at St Fergus. This modification proposal seeks to amend the Network Code charging regime to ensure true value is charged to Barrow users, and passed through to those providing that value, St Fergus users.

Consequence of not Making this Change:

There would continue to be a discriminatory and anti-competitive charging regime in respect of system entry charges, which would continue to pose a true barrier to competition in the UK gas market.

Area of Network Code concerned:

Sections B 2.9 and I 3.

Proposer's Representative:

Alan Wood (Amerada Hess Gas Limited)
Manager, Transportation & Operations

Signature:

Date: