

Modification Report
Introduction of an SO Commodity Charge for NTS Storage Exit Flows
Modification Reference Number 0120

Version 1.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1. The Modification Proposal

The UNC currently provides for the application of an SO commodity charge in respect of storage entry flows (withdrawals from storage) and Storage Use Gas i.e. gas that is deemed to exit the NTS at a storage point for purposes such as “boil off”. No such provision exists in respect of storage exit flows (injection into storage).

National Grid NTS is to raise a pricing consultation (NTS GCM03 “Introduction of an SO Commodity Charge for NTS Storage Facilities”) to propose the implementation of a reduced SO commodity charge rate on storage entry and exit flows compared to other entry and exit flows. The UNC arrangements would therefore need to be modified to provide for the application of the proposed charge rate to NTS storage exit flows.

It is intended that the proposed change to UNC for storage exit flows, together with the existing provisions in UNC with regard to storage entry flows and Storage Use Gas, would provide for an applicable SO commodity rate to apply to all storage flows, including Storage Use Gas. It is intended that National Grid NTS’s Statement of the Gas Transmission Transportation Charging Methodology would describe the applicable charge rate that would apply to the respective storage quantities.

The SO commodity charges liable by Users at a Storage Facility would be calculated by applying the proposed SO storage commodity charge rate to both the User’s daily storage input and output quantities, and by applying the existing standard SO commodity charge rate to Storage Use Gas quantities.

Implementation of the Proposal would thus enable implementation of charges that are to be proposed within NTS GCM03 in respect of storage exit flows. It is intended that these proposed charges would become effective from 1 April 2007.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1(c) “so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence”

The Proposer believed that implementation of this Proposal would better facilitate the achievement of this objective. As implementation would permit the introduction of either a zero or non-zero SO Commodity Charge rate for storage exit flows it would, potentially, facilitate the achievement of the Transporter’ obligations under the Licence Standard Special Condition A5 “Obligations as Regard Charging Methodology”. Some respondents referred to concerns on aspects of cost reflectivity, achievement of which is one of the relevant methodology objectives within this Standard Special Condition. They argued that improved cost reflectivity would not be achieved.

In the context of cost reflectivity, some respondents referred to the application of the proposed Commodity Charge being based on the UDQO, without incorporating any adjustments that reflect injection nominations on the Day made by the same User or

other Users in respect of that Storage Facility. In this context, reference was made to the Ofgem decision letter on Transco Network Code Modifications 0532, 0545 and 0547, which indicated that any new proposal “*should seek to recover costs associated with physical flows onto the NTS from storage and out of the NTS into storage.*” While the Proposal does not specifically indicate whether the basis of the proposed charged is physical flows or allocated quantities (UDQOs), the legal text indicates the latter.

Some respondents also suggested that implementation would not further this Relevant Objective since the Transporter has a licence obligation to avoid undue discrimination.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer believed that the implementation of this proposal should not have any effect on security of supply, operation of the Total System, or industry fragmentation.

Some respondents believed that extension of the SO Commodity Charge to exit flows would reduce or remove the incentives to invest in future storage facilities and so adversely affect security of supply.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

Transporters suggested that implementation would not be expected to affect operation of the System.

Some responses indicated a contrary view.

b) development and capital cost and operating cost implications:

Transporters expect any costs associated with changes to the billing systems to accommodate implementation of this Proposal to be minimal.

Responses included a view that Transporter operating costs would increase.

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

Any costs associated with system development and operating processes would be covered under the NTS SO internal cost incentive.

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

Implementation would facilitate alignment between the UNC and any changes to the Gas Transmission Transportation Charging Methodology statement that sought to apply or modify the application of a SO Commodity Rate to Storage exit flows.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Implementation is expected to reduce the level of contractual risk on National Grid NTS in that it allows NTS to charge Storage Users in accordance with its Gas Transmission Transportation Charging Methodology Statement.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

As NTS storage sites are invoiced by offline systems, any systems changes would not affect the core UK Link System.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Responses have indicated additional costs would be borne by Users for injecting gas into Storage Facilities.

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

Responses have indicated implications would arise as a consequence of additional costs being faced by Storage Users.

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

No such consequences have been identified.

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

Advantages

Implementation would facilitate implementation of a proposed Charging Methodology change that seeks to apply a Commodity Charge to exit flows associated with Storage Connection Points.

Disadvantages

Responses that have indicated disadvantages centred on the effects of a current Transportation Charging Methodology consultation rather than this Proposal in isolation. These included:

- Undue discrimination
- Reduction in cost reflectivity
- Increases in costs of storage cycling causing reduced responsiveness to pricing signals
- Increases in wholesale gas prices as a consequence of reduced storage cycling, with consequent impacts on SO balancing costs
- Inhibition of investment in new storage facilities

- Security of supply impacts from increases in storage cycling costs and additional financial constraints on storage investment.

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

Representations were received from the following:

Association of Electricity Producers	Qualified Support
British Gas Trading	Not in Support
BG Gas Services	Not in Support
Centrica Storage	Not in Support
EDF Energy	Not in Support
EDF Trading	Not in Support
E.ON UK	Not in Support
Gas Storage Operators Group	Not in Support
National Grid UK Distribution	Conditional Support
National Grid NTS	In Support
RWE Npower	Qualified Support
Scottish and Southern Energy	Not in Support
Statoil (U.K.)	Not in Support

National Grid UK Distribution offered detailed comments on the legal text for the Proposer to consider.

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

Implementation is not required to enable each Transporter 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 paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation would be required to align the UNC with the proposals set out in Transmission Transportation Charging Methodology Consultation Paper NTS GCM03 (“Introduction of an SO Commodity Charge for NTS Storage Facilities”), if this were approved by the Authority.

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

No programme for works has been identified for implementation of this Modification Proposal.

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

An implementation date of 1st April 2007 is proposed, to coincide with proposed changes to the Transmission Transportation Charging Methodology.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 1.8.5 to read as follows:

“1.8.5 In respect of any Transportation Charge in respect of any System Point:

- (a)
- (b); or
- (c) in the case of a Commodity Charge or the Commodity Variable Component of a Customer Charge, the "**Applicable Commodity Rate**" is the rate of such charge, in pence per kWh of gas flow, ~~or~~ provided that, (d) for the purposes of paragraph 3.5.3, the Applicable Commodity Rate may be the rate determined in accordance with the Transportation Statement by reference to the distance between the Specified Exit Point and the Specified Entry Point and the capacity of the Specified Exit Point, determined in accordance with Section B3.5.5 (the "**NTS Optional Commodity Rate**");

in each case in accordance with and subject to paragraphs 1.8.1 to 1.8.4, and (where any such rate varies according to the time of year) as applicable from time to time.”

Amend paragraph 3.5.3 to read as follows:

“3.5.3 The NTS Exit Commodity Charge payable (for any Day) by a User will be determined (for each NTS Exit Point) as:

- (a)
- (b) in the case of any other NTS Exit Point, the amount of its UDQO at the relevant NTS Exit Point multiplied by the Applicable Commodity Rate(s).”

For and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters