Representation

Draft Modification Report

0348 - NTS Optional Commodity tariff – update to application rules

Consultation close out date: 11 March 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **Centrica Storage Limited**

Representative: Jacopo Vignola

Date of Representation: 11 March 2011

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

We recognise the case for amending current methodology in order to ensure the effective application of the underlying principle, i.e. offering distance-related optional charging to avoid bypassing of the NTS.

However, we do not believe the proposed Modification is the most efficient solution to achieve the relevant objectives. On the contrary, it might re-introduce the issue which triggered at the time the introduction of a Short-Haul tariff.

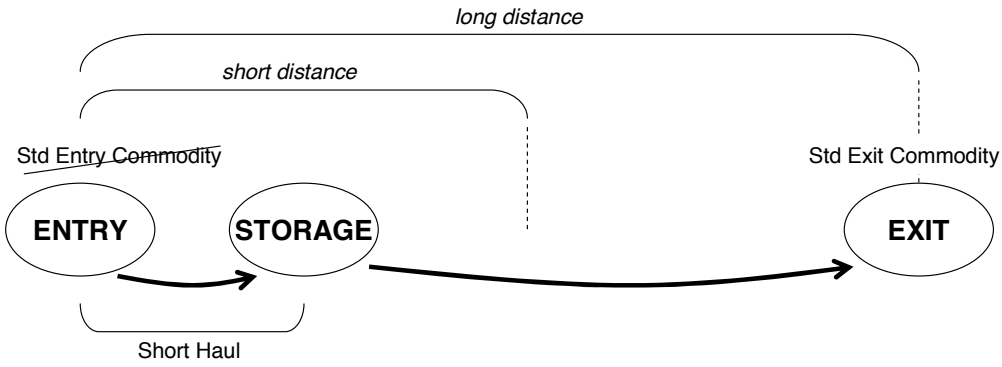
Are there any new or additional issues that you believe should be recorded in the Modification Report?

We do not believe that additional issues should be included in the final Report.

Relevant Objectives:
How would implementation of this modification impact the relevant objectives?

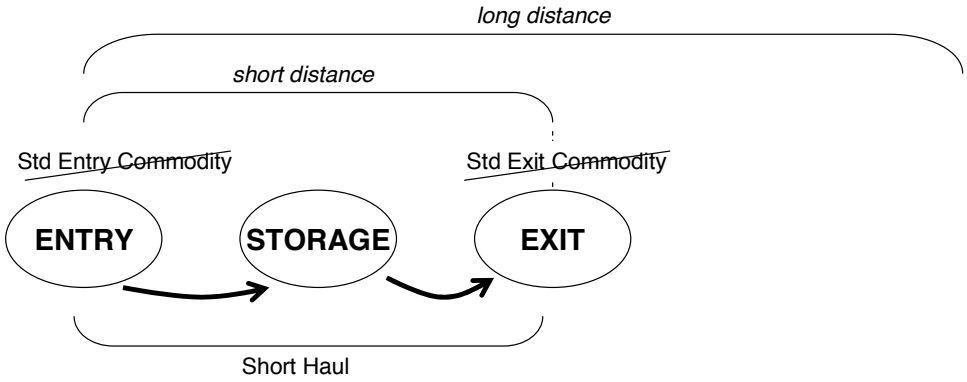
We understand the current modification is a bundle of three amendments to the current Transportation Charging Methodology in respect of the application of the Optional Commodity tariff, commonly referred to as the "Short-Haul tariff". In this response, CSL would like to offer comments only in relation to the proposed removal of the eligibility of a "Storage Connection Point" as a "Specified Exit Point" for the application of the Short-Haul tariff. This is the third area considered in the Modification Report, which will be referred hereafter as the "Proposal".

CSL recognises the potential for unfair charging where a shipper needs to deliver gas from an Entry point to a long distant Exit point and avoids legitimate standard commodity charges by "parking" gas in a storage facility en route. In this example, a shipper delivers gas from a Supply point to a near storage facility, Short-Haul tariff applies to this short initial distance, irrespectively of the distance from the facility to the final point of off-take (as suggested by the diagram below).



Whilst we recognise the case for amending current methodology in order to ensure that the Short-Haul tariff is applied only when gas is delivered to short-distant exit points, we do not believe the Proposal will achieve the relevant objectives for the following two reasons.

First, we believe the Proposal will remove the option for a shipper to be charged the Short-Haul tariff when delivering gas over short distances but "parking" gas into a storage facility between the original supply and the final point of off-take (as suggested by the diagram below), where the overall distance travelled by the gas would be within the short-haul tolerance. The removal of this option may re-introduce the incentive upon shippers to inefficiently by-pass the NTS through an ad-hoc connection from the supply point to the storage point and, in turn, to the off-take point. This was just the issue which had triggered the introduction of the Short-Haul tariff back in 1998.



Secondly, we believe the Proposal may remove the option for a storage developer to benefit from the Short-Haul tariff when injecting cushion gas into the reservoir[1], which is delivered to the storage site from a nearby Supply point. The removal of this option will create an increase in the cost of developing new storage facilities connected to the NTS and therefore negatively impact on security of supply.

In conclusion, we believe that the implementation of Modification Proposal 348 does not facilitate the efficient and economic operation of the system, viewed as an integrated network of transportation and storage[2]. Therefore, the implementation of the Proposal will not facilitate the achievement of relevant objective B.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

See the above section.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We do not support the implementation of the proposed modification.

[1] cushion gas for a storage facility is considered by Her Majesty's Revenue and Customs as plant and equipment, and once injected, would typically remain in the facility.

[2] This view is at the base of the principle under which Storage avoids standard Commodity Charges: injected/withdrawn gas into/from any storage facility connected to the NTS is not considered as leaving/entering the system (unless it is "own use" gas), thus it does not attract Exit/Entry Commodity Charge. In opposition of National Grid reasoning in paragraph 2.3 of the Modification Report, we do not believe that the application of the Short-Haul tariff to Storage Connection points undermines the above described principle: storage exemption of Commodity has been set to avoid double charges to shippers when they (1) supply, (2) inject into storage", (3) "withdrawn from storage" and (4) off-take gas from the NTS. This principle is independent from the actual distance covered by the whole operation. When all the four steps cover a transportation distance which is eligible for the Short-Haul tariff, the shipper should be allowed to opt for this option.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

N.a.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

We believe that the third amendment included in Modification Proposal 348 should be unbundled from the other two proposed amendments and an alternative proposal should be raised to address the current issue without introducing the adverse effects described above.