Stage 04: Final Modification Report

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0348:

NTS Optional Commodity tariff – update to application rules

This Modification Proposal covers the application rules for the NTS Optional Commodity tariff (as detailed in section 9.5 of UNC TD Part IIC for the Transitional period and section B3.12 of the UNC TPD for the enduring period).

Panel recommended implementation

High Impact:
Gas Shippers (particularly those being charged NTS Shorthaul)

Medium Impact:
Gas Storage Operators

Low Impact:
Insert name(s) of impact

Joint Office of Gas Transporters

Contents

About this document:

This document is a Final Modification Report, presented to the Panel on 21 April 2011.

The Authority is required to consider the Panel's Recommendation and decide whether or not this change should be made.

Any questions?

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1 Summary

Why Change?

A review of the NTS optional (short-haul) commodity tariff arrangements has identified three areas which are unclear:

1. Measurement of the distance when an Aggregate System Entry Point (ASEP) consists of more than one System Entry Point (SEP).

   The present methodology was introduced when all SEPs within an ASEP were co-locational. The application in more recent cases where the SEPs are some distance apart has been made on a pragmatic basis.

2. Users' requests for specific allocations when the short-haul tariff is requested for more than one exit point from a single entry point.

   Allowing alternate allocation rules may undermine the cost reflectivity of the charge. The costs of any necessary system changes to implement alternate allocations are likely to outweigh any potential benefits.

3. The application of the methodology at Storage Connection points.

   The application of the short – haul tariff to storage (for flows exiting the NTS) is believed to undermine the principle on which storage avoids standard Commodity charges.

These three areas require addressing to reflect changes in system configuration since the short–haul tariff was introduced, thereby providing clarity and transparency to the tariff's application.

Solution

Removal of any ambiguity in the application of the short-haul tariff in the likely range of circumstances will improve the process by adding further clarity, transparency and ease of application. This will be beneficial in the following three areas:

- Distance from the Specified Entry Point* to the Specified Exit Point*;
- Application to multiple Specified Exit Points from a single ASEP; and
- Application to Storage Connection points.

Impacts and Costs

NTS Optional Commodity rates from ASEPs with multiple SEPs may decrease. The NTS Optional Commodity charge would no longer apply to storage exit flows and hence the standard commodity charge would apply to entry flows that subsequently entered storage facilities; however, the standard rate may decrease as a result of this change. The zero commodity rate for storage entry and exit flows would still apply. No systems costs have been identified with implementing these changes.

Implementation

A lead time of four months is required to allow for the necessary charge calculation and two month notification process. The following implementation dates are therefore proposed;

- If an Authority decision is received by 1 June 2011, implementation on 1 August 2011 (to apply to NTS transportation charges from 1 October 2011).

- If an Authority decision is received by 1 December 2011, implementation on 1 February 2012 (to apply to NTS transportation charges from 1 April 2012).

- If an Authority decision is made after 1 December 2011, the equivalent dates will apply for subsequent years.

The Case for Change

This modification is expected to improve the administration of the NTS Optional Commodity tariff. By improving the clarity and transparency of the existing UNC rules regarding the application of the tariff, implementation would be expected to better facilitate efficient implementation and administration of the UNC.

2 Why Change?

The NTS Optional Commodity tariff (often referred to as the NTS short-haul tariff) is available to Shippers as an alternative to the standard SO commodity tariff (both at entry and exit) and the TO commodity tariff (at entry).
The charge was introduced in 1998 to reflect more accurately the costs of gas transportation from any entry point to a nearby large supply point - seeking to avoid inefficient by-pass of the NTS. The charge reflects the costs of constructing and operating a dedicated pipeline. The charging rate is a function of the maximum flow rate and pipeline distance of the potential pipeline.

NTS Charging discussion paper GCD07 was consulted upon following discussion at the Gas Transmission Charging Methodology Forum (Gas TCMF). This consultation highlighted several areas of concern regarding the application of the current methodology. As a result of that consultation, National Grid NTS agreed to progress the following three areas.

1. Distance from the Specified Exit Point to the Specified Entry Point.

This is defined within the UNC as the straight line distance (km) from the boundary of the Specified Exit Point to the Specified Entry Point i.e. the specific ASEP. Where there are multiple System Entry Points (SEPs) within the specific ASEP, the current approach is to use the mid point within the ASEP. This does not reflect the reality of a potential physical connection, being greater than the distance to the closest entry point within the ASEP.

Change is proposed to remove ambiguity in these cases. In addition, basing the charge on a greater distance leads to a higher charge, which is likely to be less reflective of the cost of the alternative pipeline that the charge aims to reflect. Hence the change will also improve cost reflectivity

2. Application to multiple exit points from a single ASEP.

The present methodology allows for application to more than one Specified Exit Point from the same Specified Entry Point. The default allocation where the entry flow is less than the sum of the exit flows is to pro-rate the input flow allocation (UDQI) in proportion to the output flow allocations (UDQOs) at the relevant exit points.

Although no alternative allocations have been effected to date, it is possible within the UNC for a User to request an alternative allocation. Allowing alternate allocation rules may undermine the cost reflectivity of the short-haul charge. This is because the charge has been determined on an assumption of a single pipe with a high load factor applied to this route from Entry point to Exit point. The costs of any necessary IT system changes to support alternate allocations are also likely to outweigh any potential benefits.

For reasons of clarity, efficiency, and continued cost reflectivity, it is therefore proposed to remove the potential for alternative allocations from the UNC.

3. Application to storage exit points.

Storage Connection Points are defined as not being eligible as Specified Entry Points for the short-haul tariff, but are not excluded from being eligible Specified Exit Points. This may have been an oversight when the short-haul tariff was introduced and Commodity Charges only applied at exit. (Storage does not pay standard commodity charges and would not have benefited from a non-zero short-haul tariff.) However, there is an incentive for Shippers to opt for short-haul since the introduction of commodity charges at entry.

The principle on which storage avoids standard Commodity Charges is that storage is deemed to be part of the wider system and charges have already been incurred on beach entry and exit to the end consumer. Allowing the option of the 'short-haul' tariff undermines the principle of 'already having paid standard commodity' on storage flows. For this reason it is proposed to remove eligibility for short-haul at storage exit in the UNC.

3 Solution

National Grid NTS proposes that the following three amendments are made to the UNC in regard to the NTS Optional Commodity tariff (known as the NTS 'short-haul' tariff):

1. Calculation of the distance from the Specified Entry Point (i.e. specific ASEP) when the ASEP comprises of multiple SEPs located at different geographical points.

Where there are multiple SEPs within the ASEP, the distance from the Specified Entry Point (specific ASEP) will be calculated as the minimum of each of the distances (measured in a straight line) from each SEP (within the specified ASEP) to the Specified Exit Point.

2. Application to multiple Specified Exit Points from a single ASEP.

National Grid NTS proposes to remove the potential for alternative allocations from the UNC where there are multiple Specified Exit Points from a single ASEP. The present default allocation will continue to apply in instances where there are multiple Specified Exit Points from a single ASEP.

3. Application to Storage Connection points.

Storage Connection points are not eligible as a Specified Entry Points for 'short-haul' but are eligible as Specified Exit points in the current UNC.

National Grid NTS proposes that Storage Connection points are no longer eligible as a Specified Exit Point for the NTS Optional Commodity Rate.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives c, d, and f.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	Positive

Justification

Implementation would clarify the UNC regarding the application of the NTS Optional Commodity tariff. Removing ambiguity would facilitate efficient administration and implementation of the UNC. In addition this would facilitate appropriate choices for Users regarding this tariff. Removal of any potential uncertainty in the application of the tariff will reduce the time spent by Users and National Grid in resolving associated queries. Implementation would therefore facilitate effective competition by reducing any barriers to entry arising as a result of ambiguity in application of the methodology.

National Grid NTS believes that in respect of Standard Special Condition A11 (c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence, this proposal would better facilitate the charging methodology objectives as set out in Standard Special Condition A5 5 including cost reflectivity, promoting efficiency and avoiding undue preference for the reasons detailed below.

- (i) Removal of the application to Storage Connection points as Specified Exit Points will remove a potential cross subsidy in regard to Storage Users. Storage Users

already benefit from avoidance of standard Commodity charges on exit from the NTS and re-entry back to the NTS. Retention of the availability of the 'short-haul' tariff to these Users undermines the principle on which this was predicated. The principle on which storage avoids standard Commodity Charges is that storage is deemed to be part of the wider system and charges have already been incurred on initial entry to the NTS and exit to the end consumer. Allowing the option of the 'short-haul' tariff undermines the principle of 'already having paid standard commodity' on storage flows. National Grid believes that removing potential cross subsidies is consistent with this objective.

- (ii) choosing the nearest SEP where there are multiple SEPs within the Specified Entry Point is more cost reflective and reduces the risk of inefficient by-pass and is therefore more efficient.

- (iii) removal of Users' requests for specific allocations, when the 'short-haul' tariff is requested for more than one exit point from a single entry point, is more cost reflective as the tariff is calculated on the basis of building of a single pipe from Entry Point to Exit Point with a high load factor applied to this route.

Centrica Storage believe the implementation would not facilitate the efficient and economic operation of the system for two reasons and explain these in more detail within their representation. They highlight that the removal of certain options could introduce incentives upon Shippers to inefficiently by-pass the NTS and could create an increase in the costs of developing storage facilities connected to the NTS.

5 Impacts and Costs

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
Not User Pays - no systems or operational costs have been identified.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Not applicable.
Proposed charge(s) for application of Users Pays charges to Shippers
Not applicable.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve
Not applicable.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• No impact identified
Operational Processes	• No impact identified
User Pays implications	• No impact identified

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• No impact identified
Development, capital and operating costs	• No impact identified
Contractual risks	• No impact identified
Legislative, regulatory and contractual obligations and relationships	• No impact identified

Impact on Transporters

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• No impact identified
Development, capital and operating costs	• No impact identified
Recovery of costs	• No material costs have been identified in regard to implementing this proposal
Price regulation	• No impact identified
Contractual risks	• No impact identified
Legislative, regulatory and contractual obligations and relationships	• More efficient discharge of licence obligations in regard to a cost reflective charging methodology
Standards of service	• No impact identified

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• No impact identified
UNC Committees	• No impact identified
General administration	• No impact identified

Impact on Code	
Code section	Potential impact
Section 9.5 of UNC TD Part IIC for the Transitional period	
Section B3.12 of the UNC TPD for the Enduring period	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	No impact identified
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	No impact identified
Storage Connection Agreement (TPD R1.3.1)	No impact identified
UK Link Manual (TPD U1.4)	No impact identified

Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	No impact identified
Network Code Validation Rules (TPD V12)	No impact identified
ECQ Methodology (TPD V12)	No impact identified
Measurement Error Notification Guidelines (TPD V12)	No impact identified
Energy Balancing Credit Rules (TPD X2.1)	No impact identified
Uniform Network Code Standards of Service (Various)	No impact identified

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	No impact identified
Gas Transporter Licence	No impact identified

Other Impacts	
Item impacted	Potential impact
Security of Supply	No impact identified.
Operation of the Total System	National Grid NTS believes that the operation of the system would not be adversely affected.
Industry fragmentation	No impact identified
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	No impact identified

6 Implementation

A lead time of four months is required to allow for the necessary charge calculation and two month notification process. The following implementation dates are therefore proposed;

- If an Authority decision is received by 1 June 2011, implementation on 1 August 2011 (to apply to NTS transportation charges from 1 October 2011).

- If an Authority decision is received by 1 December 2011, implementation on 1 February 2012 (to apply to NTS transportation charges from 1 April 2012).

If an Authority decision is made after 1 December 2011, the equivalent dates will apply for subsequent years.

RWE npower support 2 months notice and accept that 2 months is reasonable to undertake any analysis. Their preference would be for a 01 October implementation date.

7 The Case for Change

No additional advantages or disadvantages have been identified beyond those above.

8 Legal Text

TPD Section B

Amend paragraph 3.12.8 to read as follows:

3.12.8 For the purposes of Code:

(a) an **"Eligible Entry Point"** is an Aggregate System Entry Point which is not a Storage Connection Point;

(b) an "**Eligible Exit Point**" is a System Exit Point which is not a Storage Connection Point;

~~(b)~~ (c) a **"Specified Entry Point"** is, in the case of a Supply Point, the Eligible Entry Point identified in the User's Nomination in accordance with Section G2.3.2 or, in the case of a CSEP, the Eligible Entry Point identified in the Conventional Notice in accordance with paragraph 3.12.13;

~~(c)~~ (d) a **"Specified Exit Point"** is, in the case of a Supply Point, the Eligible Exit Point ~~System Exit Point~~ notified to National Grid NTS as the Proposed Supply Point in the User's Nomination in accordance with Section G2.3.2 or, in the case of a CSEP, the System Exit Point identified as the CSEP in the Conventional Notice in accordance with paragraph 3.12.13.

Amend paragraph 3.12.9 to read as follows:

3.12.9 The NTS Exit (Flat) Commodity Charge payable (for any Day) by a Registered User or CSEP User will be determined (for each Specified Exit Point) as:

(a) the UDQO multiplied by the NTS Optional Commodity Rate applicable for the capacity (calculated in accordance with paragraph 3.12.10) and the distance (calculated in accordance with paragraph 3.12.11);

(b) where the UDQI is less than the UDQO, the UDQO minus the UDQI multiplied by the difference between such NTS Commodity Rate as would apply if paragraphs 3.12.9 to 3.12.14 (inclusive) did not apply and the NTS Optional Commodity Rate;

provided that, where a User has nominated or identified more than one Specified Exit Point at a Specified Entry Point, the UDQI shall be prorated in relation to the UDQOs at the relevant Specified Exit Points ~~(unless the User has notified National Grid NTS and National Grid NTS has confirmed an alternative allocation of the UDQI between the relevant Specified Exit Points)~~.

Amend paragraph 3.12.11 to read as follows:

3.12.11 The distance (to the nearest 0.1 km) from the Specified Entry Point to the curtilage of the Specified Exit Point or the offtake from the Total System at the Specified Exit Point (whichever is the lesser) shall be calculated on a straight line basis as the minimum of each of the distances between each System Entry Point within the Specified Entry

Point and the Specified Exit Point using six figure grid references. ~~and~~ National Grid NTS shall determine a six figure grid reference for each Specified Entry Point and each Specified Exit Point (which may be revised in accordance with paragraph 3.12.13(c) or Section G2.4.12).

TD Part IIC

Amend paragraph 9.5.5 to read as follows:

9.5.5 Pursuant to the prevailing National Grid NTS Transportation Statement, a User may elect that, for the purposes of paragraph 9.5.3, the Applicable Commodity Rate of NTS Exit Commodity Charge in respect of a Specified Exit Point shall be the NTS Optional Commodity Rate, determined in accordance with the following provisions:

(a) for the purposes of Code:

(i) an **"Eligible Entry Point"** is an Aggregate System Entry Point which is not a Storage Connection Point;

(ii) an "**Eligible Exit Point**" is a System Exit Point which is not a Storage Connection Point;

(~~ii~~) (iii) a **"Specified Entry Point"** is, in the case of a Supply Point, the Eligible Entry Point identified in the User's Nomination in accordance with TPD Section G2.3.2 or, in the case of a CSEP, the Eligible Entry Point identified in the Conventional Notice in accordance with paragraph (f);

(~~iii~~)(iv) a **"Specified Exit Point"** is, in the case of a Supply Point, the Eligible Exit Point~~System Exit Point~~ notified to National Grid NTS as the Proposed Supply Point in the User's Nomination in accordance with TPD Section G2.3.2 or, in the case of a CSEP, the System Exit Point identified as the CSEP in the Conventional Notice in accordance with paragraph (f);

(b) the NTS Exit Commodity Charge payable (for an Day) by a Registered User or CSEP User will be determined (for each Specified Exit Point) as:

(i) the UDQO multiplied by the NTS Optional Commodity Rate applicable for the capacity (calculated in accordance with paragraph (c)) and the distance (calculated in accordance with paragraph (d)); and

(ii) where the UDQI is less than the UDQO, the UDQO minus the UDQI multiplied by the difference between such NTS Commodity Rate as would apply if this paragraph 9.5.5 were not applied and the NTS Optional Commodity Rate;

(iii) provided that, where a User has nominated or identified more than one Specified Exit Point at Specified Entry Point, the UDQI shall be prorated in relation to the UDQOs at the relevant Specified Exit Points ~~(unless the User has notified National Grid NTS and National Grid NTS has confirmed an alternative allocation of the UDQI between the relevant Specified Exit Points)~~

and shall be invoiced in accordance with TPD Section S;

(c) for the purposes of this paragraph 9.5.5, the capacity of the Specified Exit Point shall be the Exit Point Capacity, determined in accordance with TPD Section G5.4.1 except:

(i) for an LDZ Firm Supply Point the capacity shall be the sum of the DM Supply Point Capacity and the NDM Supply Point Capacity that the User is registered as holding from time to time in accordance with TPD Sections B4.2 and 4.3 respectively;

(ii) for an LDZ Interruptible Supply Point the capacity shall be the Supply Point Capacity determined in accordance with paragraph 6.1.3;

(iii) for a Shared Supply Point the capacity shall be determined in accordance with TPD Section G1.7.14;

(iv) for an NTS CSEP the capacity shall be the maximum aggregate amount of gas which it is feasible for National Grid NTS to make available for offtake at the Connected System Exit Point in a period of 24 hours; or

(v) for an LDZ CSEP the capacity shall be determined in accordance with TPD Section B4.5.2;

(d) the distance (to the nearest 0.1km) from the Specified Entry Point to the curtilage of the Specified Exit Point or the offtake from the Total System at the Specified Exit Point (whichever is the lesser) shall be calculated on a straight line basis as the minimum of each of the distances between each System Entry Point within the Specified Entry Point and the Specified Exit Point using six figure grid references. National Grid NTS shall determine a six figure grid reference for each Specified Entry Point and each Specified Exit Point (which may be revised in accordance with paragraph (f) or TPD Section G2.4.12);

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas Trading	Comments
Centrica Storage	Not in Support
E.ON UK	Supports
National Grid NTS	Supports
RWE npower	Supports

From the five representations received three parties supported implementation, one provided comments and one party was not in support.

Summary Comments

Centrica Storage recognise the case for amending the current methodology. However they do not believe the Modification would be the most efficient solution. They believe that the third amendment should be unbundled and an alternative considered.

British Gas Trading (BGT) also believe that, as the three aspects are sufficiently different, it may have been better to raise separate modifications. They support the use of minimum distance and believe that removing the ambiguity which currently exists would be beneficial to the efficient administration of the network code. It would also remove any residual scope for discrimination through the application of different shorthaul rules to different arrangements. However they were not clear what arrangements have been put in place to advise shipper counterparties of any new shorthaul rates which might apply to their existing agreements, or the timing of these notifications. They believe this is important in order to allow shippers to pass through additional costs or savings to end consumers in a timely manner. BGT remain concerned that a justification for implementing this proposal is given as the potential cost and complexity of establishing IT systems to cope with shipper allocation requests. They also believe that the removal of the ability to establish shorthaul arrangements where an entry point and a storage facility are within close proximity have not been properly considered.

10 Panel Discussions

The Panel Chair summarised that the modification seeks to clarify the UNC regarding the application of the NTS Optional Commodity tariff in three respects. Removing any ambiguity in the UNC is consistent with facilitating efficient administration and implementation of the UNC.

Clarity also helps Users to understand the choices they face and so take appropriate decisions, and avoids time being spent by Users and National Grid in resolving associated queries. Implementation could therefore facilitate effective competition by ensuring Users choose an appropriate, cost reflective, tariff. In addition, this could reduce any barriers to entry arising as a result of ambiguity in application of the methodology. However, some Members were concerned that the application in respect of storage sites could act as a barrier to development and so be detrimental to the development of effective competition.

Members noted that National Grid NTS has a licence obligation to establish a charging methodology that reflects costs, promotes efficiency and avoids undue preference. Implementation could therefore be regarded as consistent with facilitating achievement of licence obligations.

Out of ten possible votes, nine were cast in favour of implementing Modification 0348. Therefore the Panel determined to recommend implementation of Modification 0348.

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Small positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	Positive

11 Recommendations

Panel Recommendation

Having considered the 0348 Modification Report, the Panel recommends:

- that proposed Modification 0348 should be made.