

# **TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0547**

"Reconciled SO Commodity Charges at Storage Facilities"

Version 2.0

**Date:** 08/04/2002

**Proposed Implementation Date:**

**Urgency:** Non-Urgent

## **Justification**

The modification proposal is required to reflect an aspect of the proposal contained in the Pricing Consultation paper PC70.

## **Nature of Proposal**

The PC70 proposal recommends a methodology for applying the System Operator (SO) commodity charge to be imposed on gas exiting the NTS to a storage site.

Storage facilities can be considered to provide a parking service for gas. Gas which leaves the NTS and is injected into a storage site will, at some point in time be redelivered to the NTS, normally during periods of higher than average demand. Gas which is injected into storage and is used by the storage owner (own-use gas) is not classed as parked gas and is treated differently.

There can be no debate that the costs incurred by Transco for transporting gas to storage facilities are directly related to the actual physical volumes transported and as a result a cost-reflective commodity charge must be based on the physical flows which occurred over the relevant charging period.

This proposal endeavours to design a charge, which complies with the principle of cost reflectivity and additionally, is relatively easy and economical to administer.

The proposal applies the reconciliation mechanism adopted for exit points following the recovery of actual allocated flows. It is proposed that in the first instance, on the 30th September of each gas year, aggregate net flows are calculated. This derived on the basis of the difference between the aggregate actual injections and the aggregate actual withdrawals during the relevant Gas Year. If the result is positive then a charge (which may be based on a negative rate to achieve cost reflectivity) should be applied to those shippers who, during the relevant period, were net injectors.

The total charge ("Total reconciled charge") to be applied should be equal to the net aggregate flows multiplied by the relevant SO commodity rate

On the 30th September of each gas year, net flow volumes per shipper ( $\sum \text{injections}(\text{yr } x) - \sum \text{withdrawals}(\text{yr } x)$ ) are calculated.

The total reconciled charge is then allocated to the net injecting shippers on a pro-rata basis ie for  $GBP = (\text{net flow of shipper} / \text{aggregate net flow}) * (\text{aggregate net flow} * \text{SO Commodity charge}) / 100$ .

If the net aggregate flow is negative then no charge will be applied.

### **Purpose of Proposal**

The proposal reflects the fact that the transportation system and storage facilities are constituents of an integrated system. As stated, storage provides a parking facility as gas does not physically leave the system, and plays an essential role in balancing the system. The proposal ensures that the aggregate earnings for Transco through the application of the SO Commodity charge to storage users is reflective of the costs incurred by Transco for transporting the gas to the storage facilities and recognises the benefits Transco gain from these facilities.

The proposal seeks to minimise cross-subsidies between System Users and the potential over-recovery of revenues from Storage users.

The proposal seeks to implement a methodology which is consistent with the reconciliation process carried out for other system exit points i.e. it considers flows over an extended period and applies a charge which, in aggregate reflects the cost incurred by Transco for the provision of the relevant services.

### **Consequence of not making this change**

As a consequence of PC70 being accepted the Network Code shall be inconsistent with the revised transportation charging methodology.

### **Area of Network Code Concerned**

B2.13

### **Proposer's Representative**

Simon Heywood (Entergy-Koch Trading Europe Ltd)

### **Proposer**

Mark Strange (Entergy-Koch Trading Europe Ltd)

### **Signature**

.....