

**Draft Modification Report**  
**Reconciled SO Commodity Charges at Storage Facilities**  
**Modification Reference Number 0547**

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

The Proposal is as follows:

"Storage facilities can be considered to provide a parking service for 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=**(net flow of shipper/aggregate net flow)\*(aggregate net flow\*SO Commodity charge)/100.**

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

The Proposer provided the following example to demonstrate how this Proposal might apply in practice:

|           | <b>2002</b> | <b>Inject</b> | <b>Withdraw</b>   | <b>Net</b>  |
|-----------|-------------|---------------|-------------------|-------------|
| Shipper A |             | 50,000,000    | 45,000,000        | 5,000,000   |
| Shipper B |             | 25,000,000    | 15,000,000        | 10,000,000  |
| Shipper C |             | 75,000,000    | 50,000,000        | 25,000,000  |
| Shipper D |             | 60,000,000    | 60,000,000        |             |
| Shipper E |             | 50,000,000    | 35,000,000        | 15,000,000  |
| Shipper F |             | 100,000,000   | 45,000,000        | 55,000,000  |
|           |             |               | Aggregate<br>flow | 110,000,000 |

### Charge Percentages

|           |         |
|-----------|---------|
| Shipper A | 4.55%   |
| Shipper B | 9.09%   |
| Shipper C | 22.73%  |
| Shipper D | 0.00%   |
| Shipper E | 13.64%  |
| Shipper F | 50.00%  |
| Total     | 100.00% |

|                            |      |           |
|----------------------------|------|-----------|
| <b>SO commodity charge</b> | 0.26 | p/p/therm |
|----------------------------|------|-----------|

### Shipper costs

|                     |   |         |
|---------------------|---|---------|
| Shipper A           | £ | 13,000  |
| Shipper B           | £ | 26,000  |
| Shipper C           | £ | 65,000  |
| Shipper D           | £ |         |
| Shipper E           | £ | 39,000  |
| Shipper F           | £ | 143,000 |
| Total Shipper costs | £ | 286,000 |

Shipper costs = {Net flow(where injection>withdrawal)/Aggregate flow is the sum of Net flows}\*SO commodity charge/100

Total charge £ 286,000.

This Proposal was discussed in the recent meeting of the Capacity Workstream and the PSS Workstream as part of the development process for Modification Proposal 0532. During these discussions, Transco agreed to invite representations on this Proposal at the same time as representations on Modification Proposals 0532 and 0545.

## 2. Transco's Opinion

Transco does not recommend implementation of the Modification Proposal for the following reasons:

Transco recognises the benefits to Users of the "parking service" that storage provides. Availability of gas in storage facilities may, for example, assist Users in minimising their daily imbalance. With the exception of peak demand days or days associated with supply or transmission failure, the value of a storage parking service to the System Operator is limited. This is due to the long durations typically associated with injection and withdrawal. If charges were to reflect the value of any parking service they would need to embody injection and withdrawal durations as basic parameters. This Proposal, however, makes no such allowance and therefore implementation would not contribute to the efficient operation of the pipeline system.

Unlike the four alternatives proposed under Modification Proposal 0532 which has been simultaneously issued, this Proposal would create charging based on total gas flows over the Gas Year, rather than over each gas flow day. Transco believes that as the SO costs tend to be associated with physical flows on individual days, charging based upon net daily flows would be more cost reflective. In particular, basing charges on the net quantities aggregated over a period longer than a day would essentially lead to non-storage users subsidising storage users.

Transco does not see any benefit in separately accounting for Storage Use Gas (SUG). Over a period of time, the difference between injection and withdrawal would equal the quantity of SUG and thus would automatically be charged at the relevant commodity rate. Transco would, however, welcome representations on this issue.

## 3. Extent to which the proposed modification would better facilitate the relevant objectives

The Proposer believes that by using a cost-reflective methodology, Transco would fulfil the Relevant Objective: the efficient and economic operation by the licensee of its pipeline system. Transco, however, as expressed above, believes the Proposal is less cost reflective than charging based on daily flows.

**4. The implications for Transco of implementing the Modification Proposal , including  
a) implications for the operation of the System:**

Transco has not identified any implications for operation of the System.

**b) development and capital cost and operating cost implications:**

Transco would incur costs in amending its UK-Link System. The extent of these costs has not been identified at this stage.

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

Transco is not recommending implementation of this Modification Proposal. However, if this Proposal were implemented, any recovery of costs would be recovered through the usual channels.

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

Transco is not aware of any consequences this Proposal would have on price regulation.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

Transco does not anticipate that there would be any consequences on the level of contractual risk under the Network Code, as a result of this Modification Proposal.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

Transco has identified that systems development would be required by both Users and Transco.

**7. The implications of implementing the Modification Proposal for Users**

It is likely that Users would need to alter their systems and processes to accommodate implementation of this Modification Proposal.

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

Transco has identified that the introduction of additional costs would have implications on the value placed on storage services by storage users.

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

Transco does not anticipate any consequences on the legislative and regulatory obligations and contractual relationships of each User and non-Network Code party of implementing the Modification Proposal.

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

**Advantages:**

- The Proposer argues that it seeks to minimise cross-subsidies between System Users and the potential over-recovery of revenues from storage users.
- Simple to administer
- Consistent with the reconciliation process carried out for other system exit points

**Disadvantages:**

- Not wholly consistent with the spirit of PC70 objectives
- Potentially discriminatory as non-storage users could be regarded as subsidising storage users
- The change of inventory and apportionment to shippers may cause a problem.

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

Transco now seeks representations in respect of this Modification Proposal.

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

Implementation of this Modification Proposal is not required to enable Transco 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 Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Implementation of a Modification Proposal is required to enable the implementation of SO Commodity Charges to all NTS loads from 2002 as set out in PC70.

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

Systems development work would be required to enable implementation of this Modification Proposal.

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

In view of Transco's recommendation, no implementation timetable is proposed.

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco does not recommend implementation of this Modification Proposal.

**17. Text**

*Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report*

Signed for and on behalf of Transco.

Signature:

**Tim Davis**  
**Head of Regulation NT&T**

Date: