

Modification Report
Modification Reference Number 0214
NTS Optional Commodity ("Shorthaul") Tariff

This Modification Report is made pursuant to Rule 8.12 of the Modification Rules and follows the format required under Rule 8.12.4.

1 The Modification Proposal (as amended and drafted in Section 19 of this report)

This modification facilitates the incorporation of the shorthaul tariff into the Network Code and it is proposed that the following business rules are adopted:

a) Application of the Price Function

The shorthaul tariff commodity rate will be defined by the formula in the Transportation Statement and is a function of two variables; supply point capacity and distance.

{ For reference it is currently: $\text{Shorthaul Rate} = 1203 \times D \times (\text{SOQ})^{-0.834} + 363 \times (\text{SOQ})^{-0.654}$ }

i) SOQ

The value of "SOQ" (supply point capacity) to be used will be determined as follows:

NTS Offtakes (transportation charges not already a function of "SOQ")

The supply point capacity of an NTS supply point is defined as 24 * SHQ (Section G.5.4.1). This is in effect the maximum capability of the offtake even though this may not be achievable every day of the year in the case of an interruptible supply point.

Using the same principle, it is proposed that the maximum offtake capability is used for the purposes of deriving the optional rate for an NTS CSEP. Again, this may not be achievable on every day of the year in the case of an Interruptible CSEP but is the closest equivalent Network Code definition to the rule proposed for an NTS supply point. Further definition in this area can be found in J5.10 of the Code

LDZ Offtakes (transportation charges already a function of "SOQ")

The value of SOQ used in the shorthaul charging function will be the same value that is used in other charging functions and will be determined using the existing rules for the various types of offtake;

- | | |
|----------------------|---|
| Firm | - the registered supply point capacity |
| Interruptible | - previous year's peak daily consumption ("bottom stop" SOQ) |
| Sharing arrangements | - aggregate SOQ of the "logical" supply points |
| LDZ CSEP | - aggregate CSEP Capacity plus an element representing the interruptible component (if any) |

ii) Distance

The value of "D" (distance) will be determined as the notional, straight-line distance of a pipeline between the entry and offtake points. This is consistent with the empirical data used to develop the charging function. Each beach terminal will have one reference point, identified by a six figure Ordnance Survey grid reference, from which all distances will be measured.

Each nominated exit point will be given a six figure Ordnance Survey grid reference number and the distance between the entry and exit points calculated to an accuracy of +/- 0.05km. The grid reference number of the exit point will represent either the curtilage of the nominated premise or the point of offtake from the Transco system, whichever gives the shortest distance. The shipper will be able to submit its own exit point grid reference number if it believes the one held by Transco to be incorrect.

b) Eligible Entry Points

Shorthaul rates will only be applied to gas allocated at beach terminals. Storage connection points will not be eligible entry points.

c) Eligible Quantities

The quantity of gas to which the shorthaul rate will apply will be the lesser of the shipper's User Daily Quantity Input ("UDQI") and the User Daily Quantity Output ("UDQO") at the relevant system points.

To accommodate the time taken to close out entry allocations the following mechanism will apply:

over a month, the shorthaul tariff commodity rate will be applied to all gas measured out of the system at the supply point; and

after the input allocation process is complete, i.e. after M+15, an adjustment will take place to account for instances where a shipper's SIQ is less than its UDQO.

The UDQI used to determine the daily shorthaul quantity will not include any Unauthorised Gas Flow ("UGF").

In the event that a shipper has more than one exit point eligible to receive the shorthaul rate being supplied from a common entry point and the combined UDQO is greater than the UDQI, the default rule for determining the quantity of "shorthaul" gas transported to each supply point will be that the UDQI will be split in proportion to the individual UDQOs. It will be possible for the shipper to change this method of allocation.

Where a system buy flexibility bid at a relevant entry point is accepted, the quantity of gas recorded in the bid will be subtracted from the shipper's UDQI before the quantity of gas to which the shorthaul rate will apply is determined.

d) Reconciliation of NTS Commodity Charges

Where a meter check read triggers a reconciliation, a transportation charge adjustment will be made to account for gas that should or should not have been charged for at the shorthaul rate.

e) Set Up Rules

A shipper will be able to obtain the NTS optional commodity tariff in respect of its offtake from any system exit point.

Transco will be able to advise the shipper of the shorthaul rate, the distance between the entry and exit points, the six figure Ordnance Survey grid references of the relevant points and the supply point capacity of the system exit point provided the shipper supplies it with the following information; the entry terminal, the point of offtake and, in certain circumstances, a revised grid reference for the supply point or CSEP.

In the case of a supply point, the shorthaul offer will form a supplement to the standard offer obtained by submitting a standard supply point nomination in line with current practice. The issue of a supplementary offer will not be conditional on a shipper first having obtained a standard transportation offer. However, if the shipper wants the shorthaul tariff to apply at a supply point, it must also confirm a standard offer in parallel with the request to transfer to the shorthaul rate.

The procedures to deal with CSEPs will reflect the above process. Essentially, to obtain a shorthaul offer the shipper will simply be required to supply Transco with the same information as required for a supply point. If the shipper requires the shorthaul rate to apply, it will advise Transco at the time it becomes a User at the CSEP.

All the above transactions associated with initialising the shorthaul tariff at an offtake will be managed "off line" from the UK-Link SPA system.

Time-scales for transferring to this tariff will normally be consistent with the supply point transfer process. Exceptions will be when the specified exit point needs to be removed from the sites and meters database for administrative purposes. In this case, up to 2 months notice may be required before the tariff can be applied. Also, where an incumbent shipper at an exit point wants to transfer to the shorthaul tariff, the confirmation effective date should be the first day of a month. Failure to request such a date will result in Transco revising the transfer date to the first of the month following the requested date.

2 Transco's opinion

Transco's opinion is that this modification should be implemented on 1st May 1998.

3 Extent to which the modification would better facilitate the relevant objectives

This modification better supports Transco in the discharge of its licence obligations by ensuring the NTS optional commodity tariff is introduced in accordance with the outcome of the pricing consultation. (By establishing this tariff, Transco is able to offer more cost reflective prices for gas transported over relatively short distances compared to those offered by a uniform NTS commodity rate.)

4 The implications for Transco of implementing the Modification Proposal, including

a) implications for the operation of the System and any BG plc Storage Facility

It is not anticipated that the introduction of this modification will have any implication for the operation of the system.

b) development, capital cost and operating cost implications

Development costs will result from the setting up of new processes & procedures.

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 does not intend to recover any costs other than those provided for in the Transportation Statement.

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

This modification is required to implement the NTS Optional Commodity Tariff established during Pricing Consultation PC9a. Price regulation issues were analysed during that pricing consultation process and are not addressed as part of the Network Code modification process.

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's level of contractual risk is reduced as a result of this modification since the commercial incentive to construct dedicated pipelines from beach terminals to existing offtakes that avoid using Transco's system ("system by-pass") is reduced.

Transco believe that **HE's** suggestion would be inconsistent with the original pricing consultation that established that the shorthaul rate would be derived from the costs associated with bypassing the system and consequently rely on the shipper delivering gas local to the offtake. It would not be appropriate to apply the shorthaul rate to gas delivered at a terminal distant from the offtake since that gas would be unable to use the bypass. Therefore, Transco believe that current proposal is both logical and consistent with the stated principles stated in Section 1c that the shorthaul rate will only be applied to gas physically input into the system by the shipper.

HE also raise the point of the exclusion of storage connection points could be construed as discriminatory since it excludes new storage providers and favours those owned by BG plc.

Transco refute strongly the intimation that is proposing rules that are in any way discriminatory: these principles will apply to all storage connection points irrespective of the identity of facility operator.

The case for excluding inputs from storage facilities was established during the pricing consultation. The consultation was submitted on the basis that the shorthaul tariff would be available for gas entering the system from terminals and inputs from storage would be excluded. The charging function (in Section 1a) is derived from empirical data for pipelines and assumes that any system bypass pipeline would be the prime offtake facility for the majority of the year. The economics of building a pipeline are primarily a function of total throughput and no storage facility can export continuously.

Enron state that the exclusion of Rough as an eligible entry point leads to unnecessary additional trading to optimise shorthaul benefits. Transco's view is that gas inputs from Rough are easily identifiable and can be readily excluded from any quantity of gas eligible to receive the shorthaul rate. If the shipper wishes to trade storage exports to optimize its transportation position then that is the shipper's prerogative. The issue of trading gas exported from any storage (or even delivered at other terminals) to optimise shorthaul benefits is not restricted to Rough.

Thirdly, **Enron** maintain that this proposal is not compatible with the concept of a "THREAD" entry point.

Transco's position on this point is that any further development of the THREAD proposal must be mindful of the Network Code rules on shorthaul and any modification should either be compatible with pre-existing arrangements or propose to change them. Since shorthaul rates are tied to the costs of bypassing the system, the answer to a multi-terminal pricing hub could be to retain the individual terminals for determining the distance applied to the shorthaul charging function.

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

This modification is not required to facilitate compliance with Safety or other legislation.

6 The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers

The procedures developed as a result of this modification will not impact on the main current UK-Link system. Some stand-alone systems may be developed to help manage the process.

Transco has not been made aware of any shipper system implications.

7 The implications of implementing the modification for Relevant Shippers

Shippers allocated with gas and offtaking gas at appropriate entry and exit points will be able to benefit from this tariff.

8 The implications of implementing the modification for terminal operators, suppliers, producers and any Non-Network Code Party

Some end consumers may benefit indirectly from a reduction in the price of delivered gas that may accompany a reduction of transportation charges.

9 Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of the implementation of the Modification Proposal

Transco has not been informed of any such consequences.

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

Advantages

The pricing benefits identified during the pricing consultation will be available to shippers.

Disadvantages

Managing the proposal will further extend the processes and UK-Link interfaces being handled manually which may result in increased administrative costs for the industry.

11 Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report)

Representations have been received from **Amoco Europe Gas Ltd., BP Gas Marketing Ltd., British Gas Trading Ltd. ("BGT"), Conoco (U.K.) Ltd., Energy Intensive User Group ("EIUG"), Enron Europe Ltd. and Scottish Hydro-Electric plc ("HE")** which are attached as Appendix 1.

Amoco, BGT, Conoco and EIUG support the proposal; **BP and HE** support the proposal with some reservations;

BP state that in their view "the process required to receive the shorthaul offer is cumbersome"

Transco reply is that it is inevitable that the administration of a low volume activity such as shorthaul will be supported by a high degree of manual processing. However, it is envisaged that the offtakes most likely to move to the shorthaul tariff will be amongst those currently manually administered although the rules do not preclude any supply point from applying for the shorthaul tariff.

BP also state that "the modification proposal has not prevented subsidising shorthaul users who participate in the flexibility market."

By applying the shorthaul rate to gas sold to Transco there may be instances where the shipper can benefit from the shorthaul rate and be able to factor this into its flexibility bid. However, the fact remains that physically the flex gas will only use a small portion of the system and it is appropriate to charge transportation at the shorthaul rate.

This was not Transco's original position on this issue; a paper was presented to the Capacity Workstream that made the point that gas sold to Transco as part of a system input flexibility buy should not be charged at the shorthaul rate since notionally the gas "travels" to the NBP and is not offtaken by the shipper. **Enron** did not agree with this position and stated in their representation that "the argument that flex bids notionally go to the NBP does not take into account of other gas flows on the system" This view received the support of Ofgas and this version (v1.2) of the Modification report reflects this change.

HE raised a similar point stating that the check between input versus output quantities should only result in the disapplication of the shorthaul rate when the total quantity (all shippers) input at the terminal is less than the quantity offtaken. Generally, the point is that irrespective of where a shipper inputs its gas or whether or not it sells it on the flexibility mechanism, the shorthaul rate should apply to gas offtaken at the offtake since the charge would be reflective of the physical path taken by the gas.

13 The extent to which the implementation is required, having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement; furnished by Transco under Standard Condition 3(1) of the Licence

This modification proposal gives effect to the NTS Optional Commodity Tariff, which resulted from Ofgas' formal decision (dated 9th January 1998) not to veto Transco's proposal to change its pricing which followed a consultation period with the industry during 1997. The pricing proposal received strong support from almost all respondents and implementation will achieve the efficiency benefits identified during the consultation.

Once this modification is approved the transportation statement will be amended accordingly.

14 Programme of works required as a consequence of the implementation of the Modification Proposal

This modification will be implemented by operating new internal and external manual procedures.

15 Proposed implementation timetable (inc. timetable for any information systems changes

It is anticipated that this modification can be implemented on 1st May 1998, subject to Ofgas approval.

16 Recommendation for the implementation of the modification

Transco recommends that this modification is implemented on 1st May 1998.

17 Restrictive Trades Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18 Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks agreement from the Director General in accordance with this report.

19 Text provided pursuant to Rule 8.14

Note: the text submitted in this report has changed in a number of respects from that included in the draft report. The changes have principally been to add clarity, to accommodate insertion into the Network Code and to correct anomalous cross references and punctuation.

Below is a list of these changes:

- B1.8.5 paragraph redrafted to aid clarity,
- B3.5.3 unaffected text deleted to highlight Network Code change,
- B3.5.5(i) redundant definition ("Eligible Entry Point") deleted,
- B3.5.5(ii)(b) "UDQI minus system input flex buys" replaced by UDQI
- B3.5.5(ii)(c) "UDQI minus system input flex buys" replaced by UDQI
- B3.5.5(vi) text added to apply supply point SPA process to CSEPs,
- E4.1.3 typo: should be "UDQI" not "UDQO",
- G2.4.2 at suggestion of Ofgas, grid references will now be routinely supplied as part of the supplementary offer,
- G2.4.12 revised to accommodate change to G2.4.2.

Ofgas also suggested that the drafting of G2.3.2 could be changed to accommodate instances where a shipper requires both a standard offer and a supplementary shorthaul offer. In such circumstances, requests could be submitted on one nomination and returned to the shipper as a single offer.

Transco's view is that the process for obtaining the shorthaul rate should remain separate from the nomination process for obtaining a standard transportation offer. This ensures that sites where the SPA processes are administered manually are treated in a consistent manner to those administered via the I'XN on UK-Link.

SECTION B

Amend:

1.8.5 (ii); or

(iii) 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 G3.5.5, (the "NTS Optional Commodity Rate");

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

Amend:

3.5.3 at the relevant NTS Exit Point, multiplied by the Applicable Commodity Rate(s).

Insert new paragraph:

3.5.5 Pursuant to the prevailing Transportation Statement, a User may elect that, for the purposes of paragraph 3.5.3, the Applicable Commodity Rate of NTS Commodity Charge in respect of a Specified Exit Point shall be the NTS Optional Commodity Rate, determined in accordance with the following provisions:

(i) For the purposes of Code:

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

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(i) or, in the case of a CSEP, the Eligible Entry Point identified in the Conventional Notice in accordance with paragraph (vi);

a "Specified Exit Point" is, in the case of a Supply Point, the System Exit Point notified to Transco as the Proposed Supply Point in the User's Nomination in accordance with paragraph G2.3.2(i) or, in the case of a CSEP, the System Exit Point identified as the CSEP in the Conventional Notice in accordance with paragraph (vi);

(ii) The NTS 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 (iii)) and the distance (calculated in accordance with paragraph (iv)); and

(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 this paragraph 3.5.5 were not applied and the NTS Optional Commodity Rate;

(c) 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 Transco and Transco has confirmed an alternative allocation of the UDQI between the relevant Specified Exit Points);

and shall be invoiced in accordance with Section S.

(iii) For the purposes of this paragraph 3.5.5, the capacity of the Specified Exit Point shall be the Supply Point Capacity, determined in accordance with Section G5.4.1 except:

(a) 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 paragraphs 4.2 and 4.3 respectively;

(b) for an LDZ Interruptible Supply Point the capacity shall be the Supply Point Capacity determined in accordance with paragraph 4.6.5;

(c) for a Shared Supply Point the capacity shall be determined in accordance with Section G1.7.15;

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

(e) for an LDZ CSEP the capacity shall be determined in accordance with paragraph 4.5.2.

- (iv) 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 System at the Specified Exit Point (whichever is the lesser) shall be calculated on a straight line basis using six figure grid references. Transco 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 (vi) or Section G2.4.12).
- (v) An application for the NTS Optional Commodity Rate for a Supply Point shall be made in accordance with the provisions of Section G2.3.2(i) and, for a CSEP, shall be made in accordance with the provisions of paragraph (vi).
- (vi) A CSEP User, or a proposing CSEP User, may apply for the NTS Optional Commodity Rate in the following manner:-
- (a) by Conventional Notice to Transco stating the CSEP User, the Specified Exit Point and the Specified Entry Point; and
- (b) Transco shall offer the NTS Optional Commodity Rate and shall provide the distance between the Specified Exit Point and the Specified Entry Point, the capacity of the CSEP determined in accordance with paragraph (iii) and the six figure grid references used; and
- (c) where the CSEP User disputes the distance specified by Transco under paragraph (b), the CSEP User may resubmit an application in accordance with paragraph (a) stating an alternative six figure grid reference for the Specified Exit Point with supporting evidence of calculation;

(d) the CSEP User shall confirm acceptance of the offer made in accordance with paragraph (b) with effect from the first day of a month not earlier than 15 days after the submission of the confirmation (or such lesser period as Transco may specify) and not later than six months from the date of the offer.

(vii) The provisions of this paragraph 3.5.5 shall be without prejudice to the operation of Section G6.5.4.

SECTION E

Amend the following paragraphs:

4.1.3 The Unauthorised Gas Flow shall not be taken into account and shall not be treated as an UDQI or UDQO for the purpose of determining the User's Daily Imbalance under paragraph 5, or for the purposes of calculating the UDQI under Section B3.5.5.

6.3.5 Each of the Reconciliation Transportation Charge Adjustments for a Day shall be established by multiplying the DM Reconciliation Quantity by the Applicable Commodity Rate(s) of the NTS Commodity Charge

SECTION G

Amend:

2.3.2 A Supply Point Nomination shall specify :

(h); or

(i) where a User wishes to apply for the NTS Optional Commodity Rate at an Eligible Exit Point, the Specified Exit Point and the Specified Entry Point.

Amend:

2.4.2. A Supply Point Offer will specify in relation to the Proposed Supply Point:

- (i); and
- (j); or
- (k) where a User has made a nomination in accordance with paragraph 2.3.2(i), the distance between the Specified Entry Point and the Proposed Supply Point, the six figure grid references, the capacity of the Proposed Supply Point and the NTS Optional Commodity Rate.

Insert new paragraph:

2.4.12 Where the User disputes the distance specified by Transco under paragraph 2.4.2 (k), the User may resubmit a Supply Point Nomination for the Proposed Supply Point stating an alternative six figure grid reference for the Proposed Supply Point with supporting evidence of calculation.

Amend:

2.5.1 A User may submit a Supply Point Confirmation to Transco;

- (ii); or
- (iii) in respect of a Supply Point where information has been specified in accordance with paragraph 2.4.2(k), provided that a Supply Point Offer made in respect of paragraphs 2.4.2(a) to (j) and has been or, is simultaneously being confirmed by the User under this paragraph 2.5.1.

Amend:

2.5.8 The Proposed Supply Point Registration Date shall be:

(b); or

(c) where there is an application for the NTS Optional Commodity Rate from a Registered User, the first of a month or, where the Supply Point Offer made in accordance with paragraph 2.4.2 is received by Batch Transfer Communication, the first of a month not earlier than 2 months (or such lesser period as Transco may specify);

after the Supply Point Confirmation is submitted.

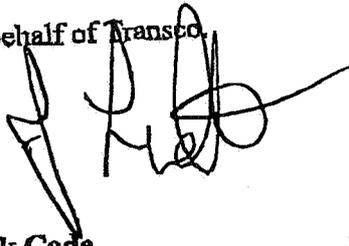
SECTION W

Add the following:

3.2.1 "kilometre" or "km": 1000 metres;

Signed for and on behalf of Transco

Signature:



John Lockett
Manager, Network Code

Date:

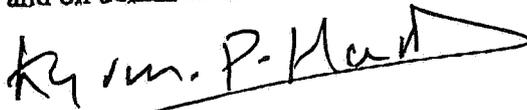
14/5/98

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference 0214, version 1.2, dated 12/05/98) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Kyran Hanks
Director of Transportation Regulation

Date:

5/5/98

The Network Code is hereby modified, with effect from _____, in accordance with the proposal as set out in this Modification Report, version 1.2, dated 12/05/98.

Signature:

Process Manager - Network Code
Transco

Date:

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause:

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:
- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.