

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

This draft 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 17 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)      Set Up Rules**

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

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

In the case of a supply point, the shorthaul rate offer will form a supplement to a standard offer obtained by submitting a standard supply point nomination in line with current practice. Issue of a supplementary offer will not be conditional on a shipper first obtaining a standard transportation offer. However, should the shipper wish to avail itself of a shorthaul rate at a supply point, it must also obtain and confirm a standard offer as well as informing Transco that it requires the shorthaul rate to apply in respect of the NTS commodity rate.

The procedures that will be implemented 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 rate at an offtake will be managed by means other than the UK-Link SPA system.

Time-scales will be consistent with the normal supply point transfer process that are the subject of consenting user allocation arrangements, including where it is necessary to remove the supply point from the sites and meters database. In this case the lead-time will be consistent with that required to remove a shared supply meter point from the sites and meters database, that is up to 2 months.

The exception to this rule will be where an incumbent shipper at an exit point, which is not on the sites & meters database, transfers to the shorthaul tariff. The transfer date on the confirmation notice will be the first day of any month. Failure to confirm such a date will result in Transco revising the transfer date to the first of the month following the requested date.

## **b) Function Variables**

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  $24 \times \text{SHQ}$  (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.

By the same token 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.

**c) Eligible Entry Points**

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

**d) Eligible Quantities**

The quantity of gas to which the shorthaul rate will apply will be calculated using the following principle:

Only delivered gas to which the shipper has title (UDQI - flex system buys) will be eligible for the shorthaul rate and,

the quantity of gas to which the rate will apply will be the lesser of the shipper's eligible input quantity or its UDQO at the relevant entry and exit 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.

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 eligible input is less than the 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. The shipper may change the above allocation method in the same time-scales as those in operation for changing a shared supply meter point notice (refer to modification 0139)).

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.

**e) Reconciliation of NTS Commodity Charges**

Where a check meter 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.

**2 Transco's opinion**

Transco 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 through the Pricing Consultation paper, 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 ("by-passes") is reduced.

**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**

End consumers may benefit indirectly from a reduction in the price of delivered gas that should 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.

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

No representations received to date

**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.

**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     Text provided pursuant to Rule 7.3**

**SECTION B**

B1.8.5        (iii)     For the purposes of paragraph 3.5.3, the " Applicable Commodity Rate" may be the " NTS Optional Commodity Rate" which is 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 determined in accordance with Section G3.5.5.

B3.5.3        The NTS Commodity Charge payable (for any Day) by a User will be determined (for each NTS Exit Point) as:

- ( i)     in the case of a NTS/ LDZ Offtake, the amount of its User Daily NTS Offtake Quantity;
- (ii)     in the case of an NTS Supply Point or NTS Connected System Entry Point, the amount of its UDQO;

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

**B3.5.5 (NEW)**

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;

an "Eligible Exit Point" is a System Exit 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 or, in the case of a CSEP, is 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 Eligible 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 Eligible 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 (less the quantity of gas for which there has been a System Entry Buy at the Specified Entry Point on the Day (the "Short Haul Input Quantity")) is less than the UDQO; the UDQO minus the Short Haul Input Quantity 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 Entry Point at a Specified Exit Point, the Short Haul Input Quantity 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 Short Haul Input Quantity 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 Section B4.6.5;

- (c) for an LDZ Shared Supply Point the capacity shall be determined in accordance with Section G 1.7.15; or
  - (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 kilometre) 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 one six figure grid reference for each Specified Entry Point and each Specified Exit Point (which may be revised in accordance with 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 G 2.3.2(i) and, for a CSEP, shall be made by in accordance with the provisions of paragraph (vi).
- (vi) A CSEP User, or a proposing CSEP User, may apply for 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, if required under paragraph (c), a request for Transco to supply the 6 figure grid references used; 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, if required by paragraph (c), the six figure grid references; and
- (c) a CSEP User may confirm the application within 6 months of the offer under paragraph (b) or may resubmit its application if it wishes to query the distance stated by Transco (under paragraph (b)) and may resubmit its application with a request for Transco to confirm the six figure grid references used.
- (vii) The provisions of this paragraph 3.5.5 shall be without prejudice to the operation of Section G 6.5.4.

## SECTION E

- E4.1.3 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 UDQO under Section B3.5.5.
- E6.3.5 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

- G2.3.2 A Supply Point Nomination shall specify :
- (g) .....; and
- (h) .....; or

- (i) Where a User wishes to apply for the NTS Optional Commodity Rate at an Eligible Exit Point, the Specified Entry Point and, where required by paragraph 2.4.12 (ii), a six figure grid reference for the Proposed Supply Point.

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

(i).....; and

(j) .....; or

- (k) where the User has applied for the NTS Optional Commodity Rate, the distance between the Specified Entry Point and the Proposed Supply Point and the capacity of the Proposed Supply Point determined in accordance with Section B3.5.5(iii).

2.4.12 Where the User disputes the distance specified by Transco under paragraph 2.4.2 (k):

- (i) the User may request that Transco provides to the User, the six figure grid references held by Transco for the Specified Entry Point and the Specified Supply Point; and
- (ii) the User may resubmit a nomination for the Specified Exit Point stating an alternative six figure grid reference for the Specified Supply Point with supporting evidence of calculation.

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

- (iii) in respect of a Supply Point where an offer has been made under paragraph 2.4.2(k), where an offer has been made in respect of paragraph 2.4.2(a) to (j) and has been or, is simultaneously being, confirmed by the User under this paragraph 2.5.1.

2.5.8

The Proposed Supply Point Registration Date shall be:

- (c) where there is an application for the NTS Optional Commodity rate, from a Registered User the first of a month; or where the offer for NTS Optional Commodity Rate 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

W3.2.1

Add:-

**"kilometre"**: 1000 metres;

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:

John Lockett  
Manager, Network Code

Date: 17th March 1998