

98/05/19/01



18 May 1998

Direct Dial: 0171-932-1655

Our Ref. : SD/Mod 214

Your Ref. :

Richard Gray  
Transco  
By Fax only

Dear Richard

**Modification 214: NTS Optional Commodity (Shorthaul) Tariff**

I am writing concerning the revised Final Modification Report for proposal 0214 received in our offices on 29 April 1998. Following subsequent discussions and a later amendment to the legal text included in your subsequent report of 14 May 1998, Ofgas now accepts this modification. Please find attached the appropriate signed page from the report. Discussion of Ofgas' views on the other issues raised in the consultation are set out below.

Four main issues were raised during consultation on this modification. First, the application process was argued to be cumbersome. Ofgas agrees that the application process is cumbersome. However, at the present time Transco must process any application for the shorthaul tariff manually. Transco argues that this initially precludes electronic receipt of the application. Transco has therefore introduced a manual application process. Ofgas accepts this view but looks to Transco to develop a more efficient, system based solution in due course.

Second, it was argued that the tariff should better reflect physical flows and that gas will flow physically from the nearest terminal to the site irrespective of whether or not a shipper puts gas in at that terminal and irrespective of whether a shipper has contracted to take gas to, or deliver gas from, the flexibility mechanism. Therefore, it was argued that all flows offtaken from a site near a terminal should receive the shorthaul tariff as long as aggregate inputs at the local terminal exceed aggregate offtakes. Transco argued that the original pricing methodology change was based on the costs of a dedicated pipeline offering local delivery by a shipper. Therefore, it is inappropriate for a shipper to benefit from the shorthaul tariff if they do not input gas locally. Ofgas accepts this argument. Shippers should face the incentive to arrange local delivery of gas if they wish to benefit from the discounted shorthaul tariff.

Third, it was argued that gas intended for the flexibility mechanism should not be excluded from the calculation of the UDQI, users daily quantity input, used to determine the quantity of gas eligible for shorthaul. Similar to the previous argument, it was demonstrated that gas could be offered notionally as a flex bid but flow physically to the local offtake. Therefore, it would be appropriate and more cost effective for such gas to benefit from the discounted short haul tariff. Transco again argued that the original pricing methodology was based on the costs of a dedicated pipeline and therefore, it would be inappropriate for flex gas to benefit from the shorthaul tariff.

Ofgas did not support Transco's arguments and was sympathetic to the argument that all gas delivered locally and offtaken locally by the same shipper should benefit from the shorthaul discounted tariff, irrespective of whether it notionally travels to and from the NBP. This would ensure that the tariff is more fully cost reflective as is required by Transco's PGT licence. Ofgas therefore requested Transco to redefine the "Shorthaul input quantity" to remove the reference

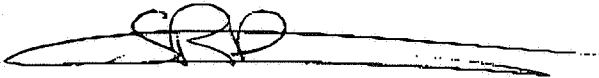
to System Entry Buy. Transco accepted this suggestion and has modified the legal drafting accordingly.

Fourth, one respondent argued that excluding storage sites may be construed as discriminatory. Again Transco argued that the original pricing methodology excluded storage sites specifically (as no storage site could export gas continually) and the network code implementation of the pricing methodology must do the same. Ofgas accepts that the modification proposal is designed primarily to implement the pricing methodology change; as such it should be consistent with the original pricing methodology proposal as far as possible. We therefore support the continued exclusion of storage gas.

Our decision has been held up due to one issue outstanding in April; the lack of pricing proposals to introduce more cost reflective NTS commodity tariffs for all loads. It was a condition of our decision not to veto the proposed pricing methodology change introducing the shorthaul tariff that *"Ofgas expects Transco to propose extending the principle of more cost-reflective commodity charges to all users of the system in time for October 1998"*. This made it impossible to implement the modification by 1 May 1998. We have now seen a paper from Transco offering for discussion options for adopting such a tariff structure. Therefore, we are now in a position to accept this modification.

I trust this clarifies the current position with regard to this modification proposal. I should be grateful if you would circulate this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'SD', followed by a long horizontal line.

Shaun Day  
Economic Adviser  
Transportation Pricing

98/05/19/02.



## Modification Proposal 214 Decision

### NTS Optional Commodity ("Shorthaul") Tariff

**18 May 1998**

#### **Present Position**

Transco's Network Code currently refers to a uniform NTS commodity charge which is applied to all users of the system, regardless of the location of the site offtaking gas. Transco recently proposed to introduce an optional commodity tariff, which had the effect of offering discounted transportation charges to large loads close to terminals. Ofgas decided not to veto the introduction of a shorthaul tariff in Transco's pricing methodology.

#### **Proposal**

Modification proposal 214 aims to incorporate within Transco's Network Code, the optional NTS commodity tariff and the business rules on which this tariff would operate. The tariff is a function of distance from terminal to supply point, load factor and load size. This modification defines measures of distance and capacity required for an optional commodity tariff and introduces rules by which shippers can apply for the tariff. It was proposed that the optional commodity tariff would not be applicable to gas sold to or bought from the flex market nor from storage entry points.

#### **Decision**

Modification 214 has been accepted by Ofgas. Four main issues were raised during consultation on this modification. First, the application process is cumbersome. We agree that the application process is cumbersome but accept that in the short term Transco must process any application manually.

Second, one respondent argued that as gas will physically flow from the nearest terminal to the site irrespective of whether or not a shipper puts gas in at that terminal, all gas offtaken locally should receive the shorthaul tariff. Transco argued that the original pricing methodology was based on the costs of a dedicated pipeline offering local delivery by a shipper. Therefore, it is inappropriate for a shipper to benefit from the shorthaul tariff if they do not input gas locally. Ofgas accepts this argument.

Third, one respondent similarly argued that gas delivered locally that was notionally marked for the flex mechanism should benefit from the shorthaul tariff as long as total local deliveries by a shipper exceeded local offtake for shorthaul purposes. Ofgas accepted this argument, believing it to better deliver more cost reflective prices. Following a request from Ofgas, Transco amended the legal drafting so that flexibility gas is no longer excluded from the calculation of gas delivered locally.

Fourth, one respondent argued that excluding storage sites may be construed as discriminatory. Again Transco point out that the original pricing consultation excluded storage sites specifically (as no storage site could export continually). Ofgas accepts that the modification proposal is primarily designed to implement the pricing methodology change and, as such, should be consistent as possible with the original pricing methodology proposal.