UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION Y – CHARGING METHODOLOGIES

PART A – NTS CHARGING METHODOLOGIES

1. The Gas Transmission Transportation Charging Methodology

CHAPTER 1: PRINCIPLES

1.1 Price Control Formulae

The transportation price control treats the NTS Transportation Owner (TO) and the NTS System Operator (SO) separately. The separate price controls and incentives determine the maximum allowed revenue that National Grid may derive from each in a Formula Year.

1.2 Structure of NTS Transportation Charges

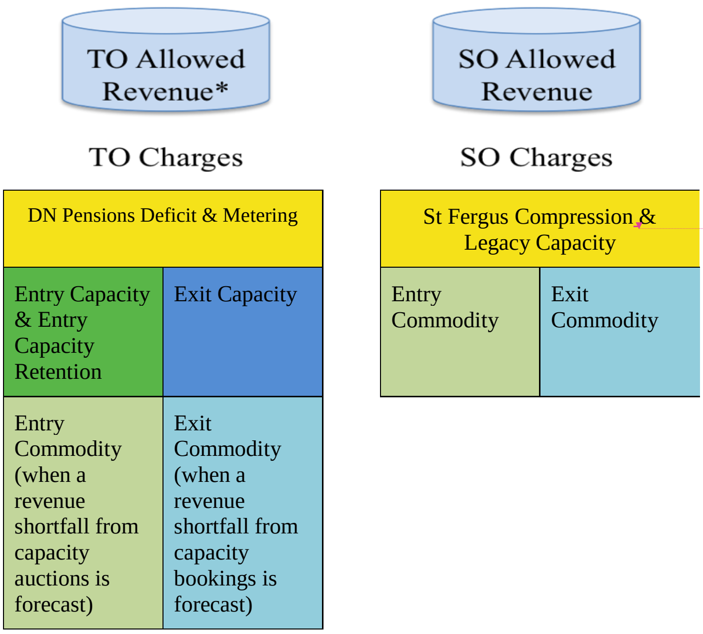
Charges are set separately for those activities related to the TO and to the SO.

The TO maximum allowed revenue is collected by Entry Capacity Charges and Exit Capacity Charges, with a TO Entry Commodity Charge levied on Entry flows where Entry auction revenue is forecast to be under-recovered, and a TO Exit Commodity Charge levied on Exit flows where revenue from Exit Capacity bookings is forecast to be under recovered. The SO allowed revenue is collected largely by means of a Commodity Charge levied on Entry and Exit flows.

Transportation Charges are published in the NTS Transportation Statement.

Figure 1 shows the breakdown between the TO and SO allowed revenues and TO and SO charges.

Figure 1 NTS charges to collect TO and SO revenue



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* Appendix A details the treatment of under/over-recovery.

50% of the TO target revenue (excluding under/over-recovery from the previous Formula Year 'K', Distribution Network (DN) Pensions Deficit revenue and Metering revenue[1]) plus Entry specific under/over-recovery from the previous Formula Year, is assumed to be derived from Non-incremental Obligated Entry Capacity and Funded Incremental Obligated Entry Capacity sales. Entry Capacity sales are determined through auctions and are subject to reserve prices. Exit Capacity Charges are applied on an administered basis, and are set so as to recover the other 50% of the TO target revenue level, plus Exit specific under/over-recovery from the previous Formula Year, when they are applied to Non-incremental Obligated Exit Capacity and Funded Incremental Obligated Exit Capacity levels.

Both auction reserve prices and Exit Charges reflect National Grid's long run marginal cost (LRMC) methodology. The unpredictability of revenue from auctions means that the target 50:50 Entry/Exit split may not be achieved in practice. A TO Commodity Charge may be levied on Entry flows where Entry Capacity auction revenue is forecast to be below the entry target level, and a TO Commodity Charge levied on Exit flows where revenue from Exit Capacity bookings is forecast to be under-recovered.

Commodity Charges are payable on gas allocated. Capacity Charges are payable when a right to flow gas is purchased, with payment due irrespective of whether or not the right is exercised.

However, although the obligation to pay for Capacity remains with the primary purchaser, all

[1] Metering revenue here is revenue from the maintenance charge applicable to NTS direct connects where the metering installation is owned by National Grid, Further details can be found in the Transportation Statement.

types of Entry Capacity can be traded between Users, such as Monthly System Entry Capacity (MSEC).

Having established, by the above methods, the target revenue to be derived from each main category of charge, the next stage is to set the charges[2] within each of these charge categories. The methodologies used to do this are described in the appropriate paragraphs below.

[2] All charge rates are rounded to 4 decimal places.

[…]

CHAPTER 3: COMMODITY CHARGES

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3.3 NTS TO Entry Commodity Charge Credit

Trigger

- The credit, which represents a retrospective negative TO Entry Commodity charge, will be used if there remains a residual over-recovery amount after taking into account any revenue redistributed via the TO Entry Commodity Rebate Mechanism (as described above).

- The mechanism will be triggered, in the event of TO over-recovery, even if the buy-back offset mechanism had not been triggered or the TO Entry Commodity Rebate Mechanism had been triggered but had not been utilised due to a zero TO Entry Commodity Charge rate having applied.

- The mechanism will be triggered at the end of the Formula Year based on the outcome of all NTS Entry Capacity auctions that represented a TO revenue stream.

Mechanism

- Any residual TO entry revenue remaining after taking into account credits resulting from the Entry Capacity buy-back offset and the TO Entry Commodity Charge Rebate mechanisms will be available as a credit to Users.

- Credits will only be paid based on relevant entry allocations i.e. those allocations that attract the Entry Commodity Charge.

- Credits will only be paid if the residual over recovery is in excess of £1m (this equates to the minimum TO Entry Commodity Charge of 0.0001 p/kWh)

- Each Users' credit will be calculated as a proportion of the total available credits based on the ratio of that Users' SO Entry Commodity Charges to the aggregate of all SO Entry Commodity Charges paid over the Formula Year e.g. if the value of the credits paid through the proposed mechanism represents 5% of all SO Entry Commodity Charges paid then each User will receive a credit representing 5% of the SO Entry Commodity Charges that it has paid over the Formula Year. The credit will be treated as TO for regulatory reporting.

- Credits will be paid following the end of the Formula Year. Note that NTS Entry Commodity Charges for the last month of the Formula Year (March) are invoiced in the following May.

Deleted: For the avoidance of doubt, this calculation excludes where Users have opted for the NTS Optional Commodity Rate to be used.

3.4 NTS SO Entry & Exit (Flat) Commodity Charge

This is a charge per unit of gas allocated by the NTS and is applied uniformly on both Entry and Exit flows at all NTS System Points. The target revenue to be raised by the charge is the SO allowed revenue, including any incentive additions or deductions, less any revenue to be obtained from the St. Fergus Compression Charge.

3.5~~6~~ Compression Charge

An additional charge is payable where gas is delivered into the NTS at a lower pressure than that required, giving rise to a need for additional compression. The Compression Charge is derived from an analysis of costs at the compressor site and the annual throughput at that site.

3.6~~7~~ NTS TO Exit Commodity Charge

This is a charge per unit of gas allocated to Users at Exit Points but not Storage Facilities. The charge is levied where National Grid forecasts that the Exit Capacity revenue will be below the target revenue.

National Grid will assess its forecast Exit Capacity revenue following the relevant application periods and, if necessary, determine a 12 month schedule of TO Commodity Charges to apply from the following October. National Grid would only depart from this schedule under exceptional circumstances.

3.7~~8~~ NTS Exit Commodity Charging at Storage

At present, National Grid does not levy Commodity Charges on gas flows at Storage Facilities, other than on an amount of gas, utilised, as part of the operation of any Storage Facility, known as storage "own use" gas. This is effectively the difference between the quantity that is injected into storage and the quantity that is available for withdrawal back into the system. For the purposes of charging, the "own use" gas is treated as leaving the NTS at that Exit Point, and hence attracts both the standard SO and TO Exit (Flat) Commodity Charges. The quantity of storage "own use" gas attributed to Users is notified by the Storage Facility manager to National Grid in accordance with the terms of the Storage Connection Agreement in respect of the Storage Facility.

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3.5 NTS Optional Commodity Rate¶
Users can elect to pay the NTS Optional Commodity Rate as an alternative to both the NTS Entry and Exit (SO & TO) Commodity Charges. The NTS Optional Commodity Rate is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification. A charging function has been calculated based on a range of flow rates and pipeline distances. The larger the load and the closer to an Entry Point the smaller the NTS Optional Commodity Rate should be as this reflects the unit cost of laying a pipeline. Although the rate is available to all daily-metered supply points, in practice it is therefore only attractive for large supply points situated close to terminals as at certain distances and loads it will become economic not to opt for the NTS Optional Commodity Rate.¶
In practice the User nominates an Exit Point and a relevant (non-storage) Entry Point. Users can nominate a number of Exit Points against the same Entry Point but cannot nominate multiple Entry Points to the same Exit Point. The NTS Optional Commodity Rate is levied on the smaller of the two daily User allocations at these points, with the assumption made that any 'extra' gas must have come from another Entry Point or alternatively flowed to another Exit Point. For the purposes of invoicing all Exit throughput is charged at the NTS Optional Commodity Rate with a reconciliation carried out a month later based on actual flows at these nominated points. To nominate an Exit Point for the NTS Optional Commodity Rate please contact the Unique Sites team at Xoserve.¶
The NTS Optional Commodity Rate (in pence per kWh) is site specific and is calculated by the following equation:¶
1203 x [(M)^-0.834] x D + 363 (M)^-0.654¶
Where:¶
D = the direct distance from the site or non-National Grid NTS pipeline to the Specified Entry Point in km;¶
M = Maximum NTS Exit Point Offtake Rate (MNEPOR) converted into kWh/day at the site; and¶
^ = to the power of.