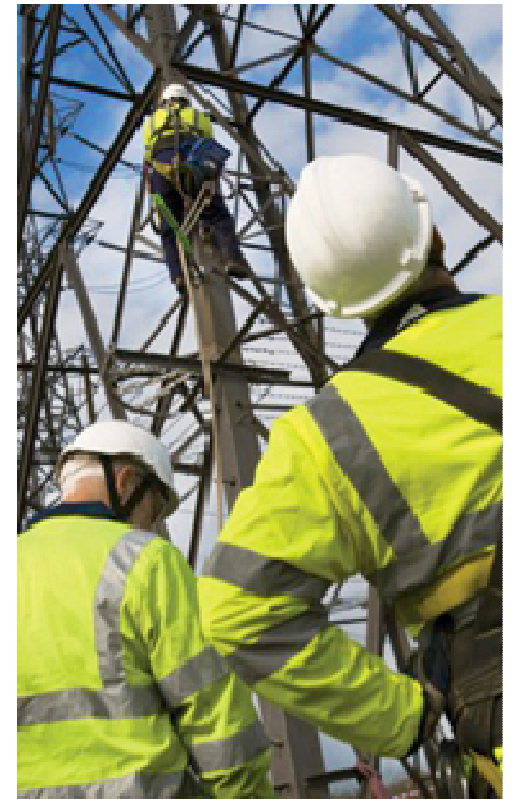


NTS Optional “Short-haul” Commodity Charge Review – Update & Next Steps

Transmission Workstream 5th November 2009



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Introduction

- ◆ A review of the NTS Optional ('Short-haul') Commodity Charge has been taking place via the Gas Transmission Charging Methodologies forum (TCMF)
- ◆ The key issue remains avoiding inefficient by-pass of the NTS while avoiding inappropriate discounts.
- ◆ This presentation covers the associated UNC issues.

Background

- ◆ ‘Short-haul’ was introduced in 1998 to reflect more accurately the costs of gas transportation from a terminal to a nearby large supply point to avoid inefficient by-pass of the NTS.
 - ◆ Shippers can elect to pay the optional tariff as an alternative to both the entry and exit NTS commodity charges.
 - ◆ The tariff is derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification (i.e. the cost of by-passing the NTS).
 - ◆ A charging function has been calculated based on flow rate and pipeline distance.
 - ◆ Available to all daily-metered supply points, although in practice it is only attractive for large supply points situated close to terminals

Charging Discussion Paper GCD07

- ◆ A draft charging discussion paper has been issued following discussions within the Gas TCMF.
- ◆ The charging paper considers two broad charge setting approaches with sub-options

Option	Charge Setting Methodology	Detail
1a	Update prevailing methodology, based on annuitised construction costs of alternative pipeline and terminal connection, to reflect latest costs.	10 year anuitisation (unchanged)
1b		45 year anuitisation
2a	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance
2b	As option 2a plus annuitised construction costs of terminal connection (effectively a hybrid of 1 & 2).	10 year anuitisation
2c		45 year anuitisation
2d	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance and load

Other Issues (UNC Changes)

- ◆ **A number of UNC issues have been identified and need to be addressed...**
 - 1. Removal of the application of short-haul at storage exit (injection)**
 - 2. ASEP location - distance from ASEP to exit point**
 - 3. Limiting application**
 - 4. Removal of alternate allocation rules**

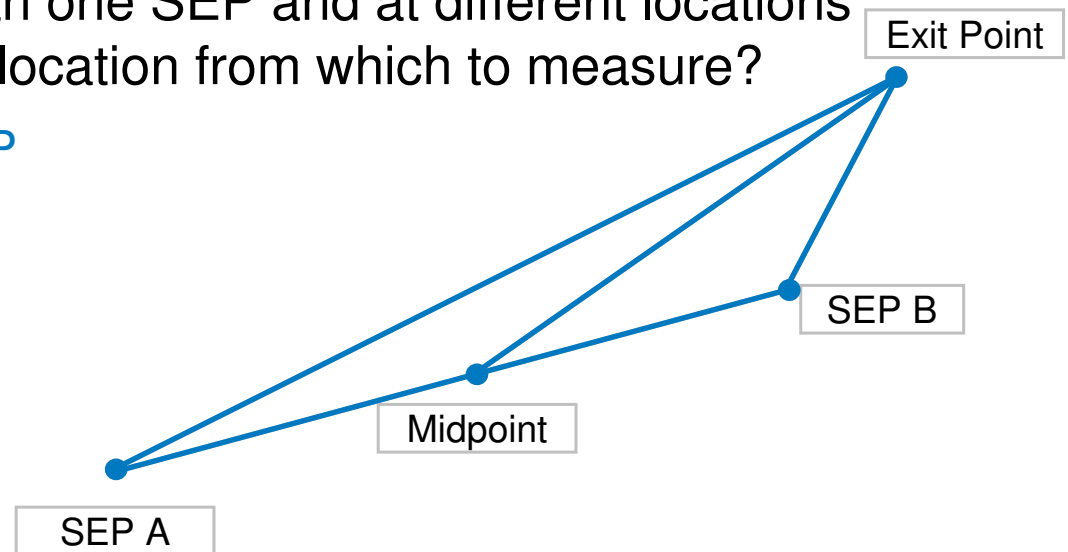
1. Application at Storage Exit Points

- ◆ Storage points are not eligible entry points for 'short-haul'; however, storage points are eligible exit points
 - ◆ This may have been an oversight given that 'short-haul' was introduced when commodity only applied to exit
- ◆ Storage points currently avoid all NTS commodity charges since storage is deemed to be part of the wider system
 - ◆ To charge commodity for storage gas might be double counting as full commodity charges are paid for a unit of gas when it first enters the system (beach) and on final exit (customer) from the system
 - ◆ By allowing the short-haul rate for storage exit, a unit of gas flowing via a storage site can avoid paying the full entry commodity at beach
- ◆ National Grid believes allowing short-haul at storage exit undermines the logic of storage sites avoiding NTS commodity charges and should be removed
 - ◆ There is limited risk of storage by-pass as these sites would no longer be treated as NTS storage sites and would lose the benefit of avoiding commodity charges when gas enters the system

2. Distance from ASEP to Exit Point

- ◆ This is currently the straight line distance (km) from 'the ASEP' to the boundary of the exit point
- ◆ No problem where an ASEP has all SEPs at same location, but where there is more than one SEP and at different locations what is the appropriate location from which to measure?

- ◆ A pipeline to each SEP
- ◆ 1 pipe via all SEPs
- ◆ Closest SEP
- ◆ Furthest SEP
- ◆ Mid point
- ◆ Other?



- ◆ If a site were to by-pass the NTS then a connection to the nearest SEP might be the most likely and hence using this distance for short-haul would be more efficient

3. Limiting Application

- ◆ Development of the original short-haul service implied it should be limited to the nearest ASEP
- ◆ Methodology Assumptions
 - ◆ In the prevailing charging methodology one of the underlying assumptions is that only pipe costs are considered
 - ◆ In the alternate approach one of the underlying assumptions is that that there are no compression costs
- ◆ For these reasons, it may be more appropriate that the tariff would only be available for exit points downstream of an entry point and not further than the next NTS compressor
 - ◆ All existing short-haul points meet this criteria
 - ◆ This could be achieved either through the UNC or through the charging methodology

4. Application to Multiple Exit Points from a Single ASEP

- ◆ Application to multiple exit points from a single ASEP is allowed under the UNC
 - ◆ The charge applies at each exit point to the lesser of the shipper allocations at the exit point and the entry point
- ◆ Where the shipper entry allocation is insufficient to meet the required exit allocation, the default is to pro-rate on the exit allocations
 - ◆ This situation is more likely to be an issue where the actual load factors are lower than the 75% assumed in the charging methodology
- ◆ Alternative short-haul allocations can be requested but only where National Grid agrees
- ◆ National Grid believes that the option to request alternate short-haul allocation rules should be removed on the grounds that it undermines the cost reflectivity of the charge
 - ◆ Set rules would be simpler and more equitable
 - ◆ Alternative rules would involve systems changes and implementation delays

Way Forward

- ◆ The charging discussion paper (GCD07) will be issued in November
 - ◆ the consultation period will be open over the 3rd December Gas TCMF Meeting (following the transmission Workstream)
- ◆ The UNC issues have been brought to the UNC Transmission Workstream so that a UNC proposal to facilitate changes to the UNC short-haul arrangements can be developed through the appropriate governance route
 - ◆ *NB The UNC changes are required irrespective of which price setting approach is taken following any proposals resulting from charging discussion paper GCD07 and are also consistent with the prevailing charging methodology.*