

Draft Modification Report
Amendment to Optional National Transmission System (NTS) Commodity Rate
requirements to input gas at the local entry point
Modification Reference Number 0600
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Proposal raised is:

“To amend the rule applied to determine the NTS Commodity Charge payable, so that provided the aggregate Users' Daily Quantity Input at the Specified Entry Point is greater than or equal to the User Daily Quantity Offtaken at the relevant Specified Exit Point(s), the NTS Optional Commodity Rate would apply to all gas offtaken at the relevant Exit Point. That is, the NTS Optional Commodity Rate would apply irrespective of the quantity of gas input at the Specified Entry Point by that User or Users (in the case of a Shared Supply Meter Point). Where there is more than one relevant Exit Point, eligibility for the NTS Optional Commodity Rate would be pro-rated to exit nominations.

(For the avoidance of doubt this modification proposal would not alter the rules in Section B.3.5.5.(i) which determine how a User nominates the Supply Point that it wishes to qualify for the NTS Optional Commodity Rate.)”

2. Transco's Opinion

As part of the introduction of the Optional NTS Commodity Rate, the Network Code was modified to include the requirement that the daily offtake quantity at a site would attract the Optional NTS Commodity rate only in respect of gas delivered at the local “elected” entry point. This is consistent with the cost-reflective principles of the tariff, namely that it should reflect the alternative cost of providing a stand-alone pipeline from the local entry point to the site. It might be argued that this principle is maintained by the proposal because aggregate flow at the local entry point is required to be no less than the volume offtaken at a site. However, a counter argument is that a stand-alone pipeline would not be feasible if the User did not input gas at the local entry point.

Following discussion at recent NT&T Workstream meetings, Transco has undertaken some analysis on the likely consequences that implementation would have on general transportation charges and has concluded that any effects would be relatively small. Further commentary on this aspect is provided in Section 3 below.

Transco notes that the condition included in the Proposal in respect of aggregate input quantities relative to each site's offtake quantities would require a set of business rules to be developed that would determine the daily offtake quantities to be charged at the Optional NTS rate and those to

be charged at the standard rate. Transco has attached a set of draft business rules to the Draft Modification Report, containing a potential methodology, and would welcome views on these.

Transco envisages that implementation would have no effects on the electricity regime.

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

In the Proposer's view, the Proposal would better facilitate the relevant objectives of facilitating competition in gas shipping and supply and the efficient and economic operation of the system:

It would incentivise loads in close proximity to entry terminals to consume gas from the NTS, reducing the probability of a constraint arising.

It would discourage large loads and offtakes from bypassing Transco's system particularly where there are risks of a constraint situation and high entry capacity costs, by providing an economic incentive for such loads to utilise Transco's system. As a result, costs to all users should reduce in the longer term.

It would facilitate the optimum delivery of gas to the system as Users shipping gas to such Supply Points would have the freedom to source gas from alternative locations to the Specified Entry Point.

It would enable shippers to trade available entry capacity with other shippers and Transco, further developing a liquid capacity market and as a result potentially reducing constraint management costs to the benefit of shippers and Transco.

It would ensure that large loads and offtakes located near to entry terminals receive cost-reflective transportation commodity charges.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco envisages no implications for the operation of the System.

b) development and capital cost and operating cost implications:

Implementation would require development of changes to administration and billing systems at an estimated cost of around £50,000.

No impact on operating costs would be expected.

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:

The development costs would lead to higher SO internal costs than otherwise. Through the SO internal cost incentive scheme, this would be expected to lead to a higher NTS SO standard commodity charge than otherwise enabling Transco to retain revenue which would offset part of the additional costs.

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

Implementation would be expected to lead to an increase in the offtake quantities billed at the Optional NTS Commodity rate, rather than the standard commodity rate. It is forecast that this could result in a reduction in SO commodity revenue of 2% which would need to be offset by an increase in the SO commodity charge of 2% to retain the same revenue level.

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

No such consequences are anticipated.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Implementation would require the development of changes to administration and billing systems to accommodate the requirement in the Modification Proposal that the aggregate of all Users' daily input quantities at each relevant entry point would need to be monitored against the offtake quantities for the affected supply points.

Transco has not been made aware of any implications for Users' computer systems.

7. The implications of implementing the Modification Proposal for Users

Users with supply points on the Optional NTS Commodity charge are likely to see a reduction in transportation charges, as a result of an increase in the portion of the offtake quantities billed at the Optional NTS rate.

Such Users would have greater flexibility in respect of which entry points they choose to deliver gas, without it affecting the extent to which the Optional NTS Commodity charge is applied.

All other Users would be likely to see at some stage an increase in the NTS (SO) commodity rate of around 2%.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Large load consumers charged on the Optional NTS Commodity charge may receive a reduction in annual charges depending on the nature of the transportation agreement with their Shipper/Supplier.

Those large loads that could potentially benefit from the Optional NTS Commodity charge would benefit from an increase in the number of Shippers/Suppliers they choose to contract

with, as potential Shippers would not need to have in place delivery contracts at the local entry terminal.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

No such consequences are anticipated.

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

Advantages :

May reduce the likelihood of NTS bypass, consistent with the objective of the Optional NTS Commodity charge.

Affected Users would benefit from greater flexibility in choosing which entry points to deliver gas.

May be considered to be cost-reflective, in that where insufficient gas is input in aggregate by all Shippers at the local terminal to meet the offtake quantities, the standard commodity rate would apply only to those quantities deemed not to have been delivered locally.

Disadvantages :

May be considered to reduce the cost-reflectivity of the Optional NTS Commodity charge in that it would apply in cases where the Shipper was not inputting equivalent quantities at the local entry point to the offtake quantity. In these circumstances, it may be considered that the alternative of a stand-alone pipeline to the local terminal would not be practical and so the justification for the Optional NTS Commodity charge as an alternative to a stand-alone pipeline is not valid.

Requires changes to the administration and billing systems used for the application and auditing of the Optional NTS Commodity charge.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco now seeks responses to this Draft Modification Report.

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

No such requirement exists in respect of the Modification Proposal.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

No such requirement exists in respect of the Modification Proposal.

14. Programme of works required as a consequence of implementing the Modification Proposal

No changes to UK Link are envisaged and therefore a Programme of Works is not required.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

At this stage, a complete implementation timetable has not been produced, but the lead-time for implementation to allow for development and testing of systems would be expected to be around three to four months.

16. Recommendation concerning the implementation of the Modification Proposal

Transco proposes to consider views before making a recommendation concerning the implementation of the Proposal.

17. Text

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:

Tim Davis
Head of Regulation NT&T

Date:

Draft Business Rules for Network Code Modification Proposal 0600 (Amendment to Optional NTS Commodity Tariff requirement to input gas at the local terminal)

Users who elect for the optional NTS commodity rate for a given supply point will apply to Transco in accordance with the Network Code (Section B3.5.5)

In applying for the optional NTS tariff, Users shall make an application in accordance with Network Code Section G 2.3.2(i) or G 2.3.9, and for a CSEP, shall be in accordance with B3.5.5(vi). Such application shall include details of the specified exit point and specified entry point.

The NTS (SO) commodity charge payable, for each specified exit point, shall be calculated as the UDQO (“User’s Daily Quantity Offtake”) multiplied by the optional rate, except for those circumstances as described in point (4).

Where the sum of all Users’ input daily quantities at a specified entry point is less than the sum of the UDQOs at the specified exit point(s), the NTS (SO) commodity charge payable for each specified exit point will be based on a combination of the standard NTS commodity rate and the optional rate, as determined by the methodology in points (5), (6) and (7).

The UDQI of the specified entry point will be apportioned across each specified exit point, by prorating it in relation to the UDQOs for each specified exit point.

[For the avoidance of doubt, at those exit points with more than one User (i.e. shared supply meter points (or SSMPs)), the eligible quantity, determined in accordance with point (5), will be apportioned in accordance to each individual User’s UDQO’s as determined by the SSMP allocation methodology.]

For each specified exit point, a User’s portion of the UDQI (calculated in accordance with point(s) (5) / (6) will be charged at the relevant optional rate, with the difference being charged at the standard rate.

No variations to this allocation methodology will be permitted. The methodology will be unaffected by the allocation arrangements in place at Shared Supply Meter Points (SSMPs). For the purposes of DM reconciliation, an adjustment will be made to account for gas that should or should not have been charged for at the optional rate.

For SSMPs only those supply points elected to be charged at the optional rate will be included in the allocation methodology.

