TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0600

"Amendment to Optional National Transmission System (NTS) Commodity Rate requirements to input gas at the local entry point"
Version 1.0

Date: 15/11/2002

Proposed Implementation Date: 01/01/2003

Urgency: Non-Urgent

Justification

- At present a supply point qualifies for the NTS Optional Commodity Rate on the basis that gas offtaken at the Specified Exit Point from Transco's system must be delivered at the Specified Entry Point – "the local terminal rule". The purpose of the NTS Optional Commodity Rate was to introduce more cost-reflective transportation commodity charges thus enabling economically efficient decisions to be made regarding the location of new loads, i.e. to deter loads from bypassing Transco's system where they are located close to entry points. Attracting new loads to the system and/or encouraging existing loads to remain connected to Transco's system will ultimately lead to lower prices for all Users.

The "local terminal rule" is unduly restrictive for the following reasons:

- Entry capacity gives rights to flow gas to the National Balancing Point (NBP). However the true costs of entry to the system to supply an adjacent supply point are negligible or zero. As such the requirement to hold NTS entry capacity at expensive terminals, e.g. St Fergus and Teesside is not cost-reflective.

- The incentive to consume gas is particularly relevant where there are entry constraints in the system, as a large offtake will help alleviate the constraint situation by facilitating the flow of gas.

- If there is an entry constraint, it could well be exacerbated by the requirement to land gas at the local terminal in order to qualify for the optional rate. It would be more economic and efficient from a system operation perspective for the load to continue consuming gas, but for the shipper to source that gas from other locations, e.g. the NBP.

Nature of Proposal

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.)

Purpose of Proposal

This 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

Proposed Text:

Amend existing Section B.3.5.5.(ii) so that it reads:

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 is less than the UDQO, the UDQO minus the UDQI 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~~ provided that the aggregate UDQI for all Users at the Specified Entry Point is greater than or equal to the UDQO at the relevant specified Exit Point(s).

(c) provided that, where an individual User has or individual Users have nominated or identified more than one Specified Exit Point at a Specified Entry Point, the UDQI shall be prorated in relation to the UDQOs at the relevant Specified Exit Points (unless the User(s) has/have notified Transco and Transco has confirmed an alternative allocation of the UDQI between the relevant Specified Exit Points);

and shall be invoiced in accordance with Section S.

Consequence of not making this change

A User shipping to a Specified Exit Point eligible for the NTS Optional Commodity Rate would still have to land the equivalent of all gas offtaken at the Specified Entry Point in order to qualify for the reduced rate. On days of constraint at the Specified Entry Point there would be a strong economic incentive for that Specified Exit Point to cease burning gas, which could in fact exacerbate the constraint.

The Specified Exit Point would also be deemed ineligible for the NTS Optional Commodity Rate in circumstances where the User has relinquished entry capacity to Transco.

The retention of the local terminal rule may further encourage such loads and offtakes to bypass Transco's system completely behind the terminal. The costs and risks associated with securing NTS entry capacity at the relevant entry point are not commensurate with the economic benefits of the NTS Optional Commodity Rate, thus giving existing and new loads an incentive to build a bypass pipeline. This could be detrimental to the economic and efficient operation of the system.

Gas for loads that have opted for the NTS Optional Commodity Rate will continue to be delivered to the Specified Entry Point which may distort traditional flow patterns and may not facilitate the optimum operation of the system.

Shippers and customers could be restricted in obtaining gas supplies, as purchase contracts must be delivered to the Specified Entry Point. This reduces liquidity in all segments of the gas market, including the On-the-day Commodity Market (OCM). Shippers and customers may be deterred from purchasing their gas needs at the NBP, as such gas would not be eligible for the Rate.

Large loads and offtakes located near to entry terminals will continue to face non cost-reflective transportation commodity charges. The requirement to hold entry capacity at a specific terminal to qualify for the optional rate will discourage shippers from trading capacity day ahead, within day or on a forward basis, thereby reducing liquidity in the secondary capacity market and limiting the potential for surrender of firm system entry capacity to Transco to alleviate entry constraints.

Transco's system will not be utilised in the most efficient and economic manner.

Area of Network Code Concerned

Section B

Proposer's Representative

Katherine Marshall (Scottish And Southern Energy plc)

Proposer

Katherine Marshall (Scottish And Southern Energy plc)

Signature

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