

NTS Optional (“Short-haul”) rate calculation – Update & Next Steps

NTS CMF 10th May 2011

Introduction

- This presentation provides an update on the review of the NTS Optional (“Short-haul”) Commodity Charge
 - NTS Charging Discussion Paper GCD07
 - Charge Rate Setting
 - Charge Application - UNC proposal 0348
 - Further UNC proposal and/or Charging Methodology Changes

NTS Charging Discussion Paper GCD07

- NTS Charging Discussion Paper GCD07 was issued for consultation in January 2010 and the consultation report was issued in March 2010.
 - The key issue is avoiding inefficient by-pass of the NTS while avoiding inappropriate discounts.
- GCD07 covered;
 - A number of application issues subsequently dealt with via UNC Modification Proposal 0348
 - Two broad charge rate setting approaches with sub-options

GCD07 – Charge Rate Setting

Option	Methodology	Detail	Response
1a	Update prevailing methodology, based on annuitised construction costs of alternative pipeline and terminal connection, to reflect latest costs.	10 year annuitisation (unchanged)	Support for 45 year annuitisation, consistent with other NTS pipelines.
1b		45 year annuitisation	
2a	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance	Some support but concerns that such an approach but may significantly reduce the benefits to the industry resulting from incentivising NTS connection (rather than bypass)
2d	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance and SOQ	
2b	As option 2a plus annuitised construction costs of terminal connection (effectively a hybrid of 1 & 2).	10 year annuitisation	There has been no support for the inclusion of a connection cost element within Option 2. This element will therefore not be taken forward. This means that Option 2b and Option 2c can be removed from further consideration.
2c		45 year annuitisation	

GCD07 - UNC Changes

Issue	Responses
<u>Removal of Application to Storage Injection (NTS Exit)</u>	General agreement – included in UNC 0348
<u>ASEP Location - Distance from ASEP to exit point</u> (This is currently the straight line distance (km) from the boundary of the exit point to the ASEP, but would be more efficient to use the closest entry point)	General agreement – included in UNC 0348
<u>Limit application</u> (Development of the original service implied it should be limited to the nearest ASEP; however, limiting to between the ASEP and upstream of the next compressor is more appropriate)	Mixed Views – Not included in UNC 0348
<u>Removal of Alternative Allocation Rules</u> (The default is to prorate when supplies are less than demand for two or more short-haul exit points linked to the same ASEP. Alternative rules can be requested (with NG approval) but would involve systems changes`)	General agreement – included in UNC 0348

UNC Proposal 0348 was sent to Ofgem (21st April 2011) with a UNC Mod Panel recommendation for implementation.

Way Forward

- **The intent is to further develop the two charging options from the discussion paper (GCD07), which gained most support, and present these to the NTS CMF.**
 - updating the existing methodology (1b)
 - Introducing an SO (and possibly TO) cost allocation methodology (2d)
- **The underlying concern remains avoiding inefficient by-pass of the NTS while avoiding inappropriate discounts.**
 - This would suggest low rates for small flows over short distances, and higher rates (or non-application) for longer distances
 - The original intent of the proposal that introduced ‘short-haul’ was to limit it to flows between an offtake and the nearest entry point.
- **Views are invited regarding further analysis**