# Optional Commodity Charge (“Shorthaul”)



NTS Charging Methodology Forum (NTSCMF)
15th September 2014

# Agenda

- What is Shorthaul?
- How Shorthaul Works
- Why we are Proposing to Review
- Interaction with Other Charges
- Potential Options for Review
- Summary

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# What is Shorthaul?

- Alternative to both the Entry and Exit NTS (SO and TO) Commodity charges
- Tariff formula was derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification and based on a range of flow rates and pipeline distances
- Acts as a disincentive to inefficient investment and to use the NTS as an alternative
- Shorthaul was implemented when Commodity Charge was lower

# How Shorthaul Works

- Shipper nominates an exit point and a relevant (non-storage) entry point
- Shippers can nominate a number of exit points against the same entry point but cannot nominate multiple entry points to the same exit point
- NTS Optional Commodity Charge (Shorthaul) is levied on the smaller of the two daily shipper allocations at either the entry or exit point, with the assumption made that any ‘extra’ gas must come from another entry point or alternatively flowed to another exit point

# How Shorthaul Works - Invoicing

- Initially invoiced on the basis that all exit throughput is charged at the NTS Optional Commodity Rate (Shorthaul)
- A reconciliation is carried out a month later based on actual flows at the nominated points.
- All invoicing is carried out by xoserve

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# Why we are Proposing to Review?

- The Shorthaul principles have not been reviewed for a number of years
- There are trends and impacts on other charges which are not in keeping with the original intent and purpose of the charge
  - Product being used over larger distances
  - Product not being used as intended as an incentive to not invest in building own pipe and avoiding using the NTS

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# Interaction with Other Charges

- Shorthaul has a direct influence on other charges, particularly the commodity charges
- The charging base used to calculate commodity charges is reduced by any shorthaul volumes thereby increasing the Commodity Rates
- As shorthaul is charged, the revenue associated to difference between the shorthaul rate and normal commodity rates  will be added to that recovered from commodity charges
- Distance that some of the Shorthaul covers would not be economic to build a pipe

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# Potential Options for Review

- There are three high level options
  - Refine the shorthaul charge calculation
  - Keep the shorthaul product as it is
  - Remove the shorthaul product
- Interaction with EU Tariff Code:
  - Current wording of guidelines and draft code may not allow shorthaul at Interconnection Points (IPs) from October 2017
  - There are opportunities to influence the Tariff Code going forward

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# Refining the Shorthaul Charge Calculation

- Options that could be considered
  - Building in a cut off distance in the calculation when considering the distance between Entry and Exit Point
- Consider a gradual change to the rate depending on the distance between Entry and Exit Point
  - Phased down as distance increases
  - Keep a cut off distance
- Review the eligibility criteria for shorthaul
- Review the charges it replaces
  - E.g. it could only replace SO Commodity Charge rather than all commodity
- Any other options/views?

# Summary

- We believe shorthaul should be reviewed
  - It is not in scope of the GTCR and can be dealt with separately
- Shorthaul is influencing other charges more as volumes increase
- The purpose of shorthaul should be relevant and kept under review
- Assuming shorthaul is kept – consider EU Tariff Code wording

# Next Steps

- We will produce analysis of the various options and present back to the next NTSCMF for discussion
  - What sort of analysis would be useful?
- As part of the analysis we will look at what may need to be updated if we proceed to a change proposal
  - UNC
  - Transportation charging statement
  - Invoicing - xoserve