

0348 NTS Optional Commodity tariff – update to application rules



This Modification Proposal covers the application rules for the NTS Optional Commodity tariff (as detailed in section 9.5 of UNC TD Part IIC for the Transitional period and section B3.12 of the UNC TPD for the enduring period).



The Workgroup recommends proceeding to consultation.



High Impact:

Gas Shippers (particularly those being charged NTS Shorthaul)



Medium Impact:

Gas Storage Operators



Low Impact:

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 17 February 2011, on whether 0348 Modification is sufficiently developed to proceed to the Consultation Phase and to submit any further recommendations in respect of the definition and development of this Modification.



3 **Any questions?**

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xoserve:
Insert name



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1 Summary

Why Change?

A review of the optional commodity charge arrangements has identified changes that might improve cost reflectivity. The three issues addressed within this proposal are:

1. Measurement of the distance when an Aggregate System Entry Point (ASEP) consists of more than one System Entry Point (SEP).

The present methodology was introduced when all SEPs within an ASEP were co-locational. The application in more recent cases where the SEPs are some distance apart has been made on a pragmatic basis.

2. Users' requests for specific allocations when the 'short-haul' tariff is requested for more than one exit point from a single entry point.

Allowing alternate allocation rules may undermine the cost reflectivity of the charge. The costs of any necessary system changes to implement alternate allocations are likely to outweigh any potential benefits.

3. The application of the methodology at Storage Connection points.

The application of the short – haul tariff to storage (for flows exiting the NTS) is believed to undermine the principle on which storage avoids standard Commodity charges.

These three areas require addressing to reflect changes in the system configuration since the short – haul tariff was first introduced and to add further clarity and transparency to the tariff application.

Solution

Removal of any ambiguity in the application of the short-haul tariff in the likely range of circumstances will improve the process by adding further clarity, transparency and ease of application. This will be beneficial in the following three areas:

- **Distance from the Specified Entry Point* to the Specified Exit Point*;**
- **Application to multiple Specified Exit Points from a single ASEP; and**
- **Application to Storage Connection points.**

Impacts & Costs

NTS Optional Commodity rates from ASEPs with multiple SEPs may decrease. The NTS Optional Commodity charge would no longer apply to storage exit flows and hence the standard commodity charge would apply to entry flows that subsequently entered storage facilities; however, the standard rate may decrease as a result of this change. The zero commodity rate for storage entry and exit flows would still apply. No systems costs have been identified with implementing these changes.



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Implementation

The following implementation dates are proposed;

An implementation of 1st August 2011 to allow for inclusion within the 1st October 2011 NTS transportation charges based on an Authority decision by 1 June 2011, or

An implementation of 1st February 2012 to allow for inclusion within the 1st April 2012 NTS transportation charges based on an Authority decision by 1 December 2011

If an Authority decision is not made until after 1 December 2011, the corresponding dates for the remainder of 2012, 2013 and beyond will apply to enable the updated short - haul calculations to be included within a 1st April or 1st October NTS charging update.

In justification for the above, it is proposed that the updated shorthaul calculation be captured as part of NTS transportation charges which are implemented on 1st April or 1st October each year. A lead time of four (4) months is required to allow for the necessary charge calculation and two month notification process.

The Case for Change

This modification is expected to improve the cost reflectivity of the Optional Commodity charge. By improving the clarity and transparency of the existing UNC rules regarding the application of the NTS Optional Commodity tariff, implementation of this Modification would be expected to better facilitate efficient implementation and administration of the UNC.

Recommendations

The Transmission Workstream was asked by the Proposer to consider further development of the modification and also to consider, at the earliest opportunity, whether:

- (i) A single Modification as proposed here; or
- (ii) multiple Modifications to address each issue individually is most appropriate.

2 Why Change?

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).

Background

The NTS Optional Commodity tariff (known as the NTS 'short-haul' tariff) is available to Shipper Users* as an alternative to the standard SO commodity tariff (both at entry and exit) and the TO commodity tariff (at entry).

The charge was introduced in 1998 to reflect more accurately the costs of gas transportation from any entry point to a nearby large supply point - seeking to avoid inefficient by-pass of the NTS. The charge reflects the costs of constructing and operating a dedicated pipeline. The charging rate is a function of the maximum flow rate and pipeline distance of the potential pipeline.

An exit connection that by-passes the NTS, which might otherwise have connected to the NTS with no NTS reinforcement costs, may be economic for the relevant shipper based on prevailing standard NTS charges. This form of by-pass would be expected to be uneconomic for the industry as a whole, and hence not in the interest of end consumers, as non by-pass of the NTS would result in lower charges on average for all shippers and hence consumers. The standard commodity charge recovers National Grid's SO allowed revenue by applying a flat unit rate to each unit of gas flowed at non-storage entry and exit points. If users by-pass the NTS there will be less total flow and so the unit rate will necessarily increase to recover the same level of allowed revenue. If a short-haul tariff is available and the User chooses not to by-pass then some revenue will be recovered from the short-haul tariff and the standard tariff will recover slightly less total revenue, implying a lower unit rate than in the situation of by-pass.

The impact on SO and TO Commodity Charges as detailed below was presented at a Gas TCMF meeting in May 2009.

NTS Charges (Prices in p/kWh)	Actual rates from 01 April 2009	Rates that would apply if there was no 'short-haul' charge	Rates that would apply if 'short-haul' Users built their own pipe
SO Commodity (Applied to Entry and Exit Flows)	0.0155	0.0141	0.0158
TO Commodity (Applied to Entry Flows)	0.0114	0.0102	0.0114

Optional 'Short-haul' Commodity (Weighted Average *)	0.0052	N/A	N/A
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For this reason, the optional commodity charge seeks to make NTS connection economic for the connecting party while still representing a benefit to the industry as a whole.

NTS Charging discussion paper GCD07 was consulted upon following discussion at the Gas Transmission Charging Methodology Forum (Gas TCMF). This consultation highlighted several areas of concern regarding the application of the current methodology. As a result of the consultation National Grid agreed to progress three areas of application of the charge for which there had been broad support. This modification proposal addresses these areas, which are specified within the UNC rather than the charging methodology.

1. Distance from the Specified Exit Point to the Specified Entry Point.

This is currently defined as the straight line distance (km) from the boundary of the Specified Exit Point to the Specified Entry Point i.e. the specific ASEP. Where there are multiple System Entry Points (SEPs) within the specific ASEP, the current pragmatic approach has been to use the mid point within the ASEP. This approach does not reflect the reality of a potential physical connection and there is a risk of inefficient bypass in such situations as the implied distance would be greater than the distance to the closest entry point within the ASEP. Having a greater distance leads to a higher charge, which is likely to be less reflective of the cost of the alternative pipeline that the charge aims to reflect. Where Users perceive a shorter pipeline to be required they may be more likely to consider building their own by-pass pipeline.

2. Application to multiple exit points from a single ASEP.

The present methodology allows for application to more than one Specified Exit Point from the same Specified Entry Point. The default allocation where the entry flow is less than the sum of the exit flows is to pro-rate the input flow allocation (UDQI*) in proportion to the output flow allocations (UDQO*s) at the relevant exit points. This is the most equitable approach. At present it is possible for a User to request an alternative allocation within the UNC. Allowing alternate allocation rules may undermine the cost reflectivity of the charge. This is because the charge has been determined on an assumption of a single pipe with a high load factor applied to this route from Entry point to Exit point. The costs of any necessary system changes to implement alternate allocations are likely to outweigh any potential benefits. Note that no alternative allocations have been effected to date.

For reasons of clarity, efficiency, and continued cost reflectivity of the Charging Methodology it is proposed to remove the potential for alternative allocations from the UNC.

3. Application to storage exit points.

Storage Connection Points* are defined as not being eligible as Specified Entry Points for 'short-haul' but are not excluded from being eligible Specified Exit Points. This may have been an oversight when the 'short-haul' tariff was introduced when Commodity Charges* only applied at exit. (Storage does not pay standard commodity charges and would not have wanted the 'short-haul' tariff at exit which would have been higher than zero.) There is an incentive for Shipper Users to opt for 'short-haul' since the introduction of commodity charges at entry.

The principle on which storage avoids standard Commodity Charges is that storage is deemed to be part of the wider system and charges have already been incurred on beach entry and exit to the end consumer. Allowing the option of the 'short-haul' tariff undermines the principle of 'already having paid standard commodity' on storage flows. For this reason it is proposed to remove eligibility for short-haul at storage exit in the UNC.

3 Solution



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National Grid NTS proposes that the following three amendments are made to the UNC in regard to the NTS Optional Commodity tariff (known as the NTS 'short-haul' tariff):

1. Calculation of the distance from the Specified Entry Point (i.e. specific ASEP) when the ASEP comprises of multiple SEPs located at different geographical points.

Where there are multiple SEPs within the ASEP, the distance from the Specified Entry Point (specific ASEP) will be calculated as the minimum of each of the distances (measured in a straight line) from each SEP (within the specified ASEP) to the Specified Exit Point.

2. Application to multiple Specified Exit Points from a single ASEP.

National Grid NTS proposes to remove the potential for alternative allocations from the UNC where there are multiple Specified Exit Points from a single ASEP. The present default allocation will continue to apply in instances where there are multiple Specified Exit Points from a single ASEP.

3. Application to Storage Connection points.

Storage Connection points are not eligible as a Specified Entry Points for 'short-haul' but are eligible as Specified Exit points in the current UNC.

National Grid NTS proposes that Storage Connection points are no longer eligible as a Specified Exit Point for the NTS Optional Commodity Rate.

4 Relevant Objectives

The Proposer believes that 0348 will better facilitate the achievement of **Relevant Objectives c and d.**

Proposer's view of the benefits of 0348 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

Justification

- National Grid NTS believes that in respect of Standard Special Condition A11 (d) so far is consistent with sub-paragraphs (a) to (c) the securing of effective competition (i) between relevant shippers, this proposal would improve the clarity and transparency to the existing UNC rules regarding the application of the NTS Optional Commodity tariff. This will facilitate appropriate choices for Users regarding this tariff. Removal of any potential uncertainty in the application of the tariff will reduce the time spent by Users and National Grid in resolving associated queries. All three parts of the proposal will facilitate the application of the NTS Optional Commodity tariff. This will facilitate effective competition between Shippers/Suppliers by reducing any barriers to entry arising as a result of ambiguity in application of the methodology.
- National Grid NTS believes that in respect of Standard Special Condition A11 (c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence, this proposal would better facilitate the charging methodology objectives as set out in Standard Special Condition A5 5

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including cost reflectivity, promoting efficiency and avoiding undue preference for the reasons detailed below. The reasons as outlined in regard to Standard Special Condition A11 (d) above are also relevant to this objective.

- (i) Removal of the application to Storage Connection points as Specified Exit Points will remove a potential cross subsidy in regard to Storage Users. Storage Users already benefit from avoidance of standard Commodity charges on exit from the NTS and re-entry back to the NTS. Retention of the availability of the 'short-haul' tariff to these Users undermines the principle on which this was predicated. The principle on which storage avoids standard Commodity Charges is that storage is deemed to be part of the wider system and charges have already been incurred on initial entry to the NTS and exit to the end consumer. Allowing the option of the 'short-haul' tariff undermines the principle of 'already having paid standard commodity' on storage flows. National Grid believes that removing potential cross subsidies is consistent with this objective.
- (ii) choosing the nearest SEP where there are multiple SEPs within the Specified Entry Point is more cost reflective and reduces the risk of inefficient by-pass and is therefore more efficient.
- (iii) removal of Users' requests for specific allocations, when the 'short-haul' tariff is requested for more than one exit point from a single entry point, is more cost reflective as the tariff is calculated on the basis of building of a single pipe from Entry Point to Exit Point with a high load factor applied to this route.

5 Impacts and Costs

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
No systems or operational costs have been identified.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Not applicable.
Proposed charge(s) for application of Users Pays charges to Shippers
Not applicable.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve
Not applicable.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> No impact identified
Operational Processes	<ul style="list-style-type: none"> No impact identified
User Pays implications	<ul style="list-style-type: none"> No impact identified

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Tbc
Development, capital and operating costs	<ul style="list-style-type: none"> Tbc
Contractual risks	<ul style="list-style-type: none"> Tbc
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Tbc

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> No impact identified
Development, capital and operating costs	<ul style="list-style-type: none"> No impact identified
Recovery of costs	<ul style="list-style-type: none"> No material costs have been identified in regard to implementing this proposal
Price regulation	<ul style="list-style-type: none"> No impact identified
Contractual risks	<ul style="list-style-type: none"> No impact identified
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> More efficient discharge of licence obligations in regard to a cost reflective charging methodology
Standards of service	<ul style="list-style-type: none"> No impact identified

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> No impact identified
UNC Committees	<ul style="list-style-type: none"> No impact identified
General administration	<ul style="list-style-type: none"> No impact identified

Impact on Code	
Code section	Potential impact
Section 9.5 of UNC TD Part IIC for the Transitional period	
Section B3.12 of the UNC TPD for the Enduring period	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	No impact identified
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	No impact identified
Storage Connection Agreement (TPD R1.3.1)	No impact identified
UK Link Manual (TPD U1.4)	No impact identified

Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	No impact identified
Network Code Validation Rules (TPD V12)	No impact identified
ECQ Methodology (TPD V12)	No impact identified
Measurement Error Notification Guidelines (TPD V12)	No impact identified
Energy Balancing Credit Rules (TPD X2.1)	No impact identified
Uniform Network Code Standards of Service (Various)	No impact identified

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	No impact identified
Gas Transporter Licence	No impact identified
Transportation Pricing Methodology Statement	No impact identified since changes are all contained within the UNC.

Other Impacts	
Item impacted	Potential impact
Security of Supply	m
Operation of the Total System	National Grid NTS believes that the operation of the system would not be adversely affected.
Industry fragmentation	No impact identified
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	No impact identified

6 Implementation

The Work Group Chairman should enter here, using information gained from the Proposer, the Transmission Company/Transporter and from any other Work Group attendees, the likely implementation timetable.

Proposed/Provisional Timetable

- Proposal submitted to Mod Panel 18 Nov 2010
- Proposal discussed at Transmission Workstream 02 Dec 2010
- Closeout for representations tbc
- FMR produced tbc
- Modification Panel decide upon recommendation tbc
- FMR submitted to Ofgem tbc

An implementation of 01 August 2011 to allow for inclusion within the 01 October 2011 NTS transportation charges based on an Authority decision by 01 June 2011; or

An implementation of 01 February 2012 to allow for inclusion within the 01 April 2012 NTS transportation charges based on an Authority decision by 01 December 2011.

If an Authority decision is not made until after 01 December 2011, the corresponding dates for the remainder of 2012, 2013 and beyond will apply to enable the updated short-haul calculations to be included within an 01 April or 01 October NTS Charging update.

In justification for the above, it is proposed that the updated short-haul calculation be captured as part of NTS transportation charges, which are implemented on 01 April or 01 October each year. A lead-time of four (4) months is required to allow for the necessary charge calculation and two-month notification process.

7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

National Grid NTS believes that the benefits of this proposal are that the Proposal:

- Should improve the clarity and transparency to the existing UNC rules regarding the application of the NTS Optional Commodity tariff. This will facilitate appropriate choices for Users regarding this tariff. Removal of any potential uncertainty in the application of the tariff will reduce the time spent by Users and National Grid in resolving associated queries.
- Using the distance from the nearest SEP where there are multiple SEPs within the Specified Entry Point is more cost reflective and reduces the risk of inefficient by-pass and is therefore more efficient.
- The principle on which storage avoids standard Commodity Charges is that storage is deemed to be part of the wider system and charges have already been incurred on beach entry and exit to the end consumer. Allowing the option of the 'short-haul' tariff undermines the principle of 'already having paid standard commodity' on storage flows. Removal of the option to choose the 'short-haul' tariff avoids any potential cross subsidy and preserves the integrity of the principle of 'already having paid standard commodity' on storage flows.

Disadvantages

- Removal of the option to request an alternate allocation in the application to multiple exit points from a single ASEP reduces potential choice to Users. Alternate choices rather than a pro-rata allocation are likely to involve significant system changes which are unlikely to be justified by National Grid on economic grounds.
- Storage Users would no longer benefit from low charges for exit flows from beach entry to storage but would still preserve the right to non – application of standard commodity charges on flows into and out of storage facilities. The latter is likely to result in more significant cost savings as a whole and reduces the risk of re-examination of the underlying principles relating to transportation charging for storage facilities.
- There will be some changes in Users' charges where there are multiple SEPs within a Specified Entry Point (specific ASEP) but there will be reductions as opposed to increases as the minimum distance will be used instead of an average.

8 Recommendation



Consultation Ends

17:00 on xx Month 2011

Recommendation

Modification Group
recommends

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The Work Group invites the Panel to:

- AGREE that Modification Proposal 0348 be submitted for consultation; and
- AGREE that Code Administrators should issue 0348 Draft Modification Report for consultation with a close-out of xx XXXXXXXX 2011 and submit results to the Panel to consider at its meeting on [Panel meeting date].