

## **TRANSCO PRICING CONSULTATION PAPER PC40**

### **Daily Entry Capacity Services at LNG Facilities**

#### **Summary**

Network code modification 0304 sought to establish a low cost overrun methodology and daily entry capacity service for all LNG facilities. Low cost overruns will be the subject of a separate methodology proposal, put forward by BG Storage. This paper proposes extending the daily entry service to all LNG facilities such that it will become available at all NTS. entry points.

The paper also proposes that incentives for booking constrained LNG services should be excluded from calculations of floor prices at LNG facilities that offer a constrained service. This is necessary to maintain consistency with the methodology applicable at all other entry points.

## 1. BACKGROUND

In November 1998 Transco introduced a number of daily capacity services at all beach entry points including Rough and Hornsea. The services were introduced at the request of shippers, that identified a number of drawbacks associated with offering only annual entry capacity. The drawbacks included a reduced availability of short term gas except at high prices and an increased risk to shippers of incurring overrun charges. The methodology for calculating daily charges was consulted upon in Transco Pricing consultation paper PC36. It gives floor prices for daily entry services at four times the daily rate for annual entry capacity booking. The operational details of the services were agreed in Network Code Modification 0273.

Network Code modification 0304 sought to extend the provision of Daily entry services to LNG facilities and to establish a new floor price calculation for constrained LNG facilities. Further proposals were contained in modification 0304 regarding low cost overruns at LNG facilities. BG storage will produce a consultation paper containing their proposals for low cost overruns. This paper will be limited proposals to extend Transco's daily entry service to LNG facilities. Indicative charges resulting from the proposed methodology are included in Transco's document Gas Transportation Charges from 1st May 1999. The table of daily entry charge floor prices for LNG facilities is repeated below.

**Daily Entry Charge Floor Prices - LNG sites**

Entry point	Daily entry pence per registered kWh per day	Daily entry pence per registered therm per day
Glenmavis LNG	0.0396	1.1610
Partington LNG	0.0084	0.2460
Dynevor Arms LNG	0.0000	0.0000
Isle of Grain LNG	0.0000	0.0000
Avonmouth LNG	0.0000	0.0000

## 2. LNG ENTRY SERVICE PROPOSAL

The proposal in Network Code modification 330, is that two types of daily capacity service should be offered at LNG facilities.

1. Daily capacity
2. Daily secondary capacity

Both proposed services would be the same as the daily services already offered at other entry points except in one respect. That is that the calculation of floor prices for daily capacity at facilities that offer a constrained service should be based on a multiple of the daily entry charge for annual capacity booking which would apply if the service were not constrained i.e., without the constrained benefit.

### 3. METHODOLOGY

A methodology for setting the floor price for daily entry capacity at beach terminals, including Rough and Hornsea, at four times the equivalent daily rate for annual capacity bookings has been determined. For entry into the NTS from non-constrained LNG storage facilities setting the floor price for daily entry capacity bookings on the same basis will give consistency and provide similar incentives.

For entry at constrained LNG facilities Transco provides a transmission benefit in the form of a reduction to the entry charge in recognition of the service provided through the facility being constrained. For the three southern LNG facilities (Avonmouth, Isle of Grain and Dynevor Arms) this results in a negative entry charge for annual capacity booking.

Transco provides a transmission benefit to encourage shipper booking of LNG at constrained facilities. The benefit takes the form of a reduction in the entry capacity charge applicable at a constrained facility. In return shippers undertake an obligation to provide transmission support gas to Transco on days of very high demand. Minimum inventory levels are monitored throughout the winter period to ensure sufficient gas is available to provide the required transmission benefit. Constrained LNG charges, after addition of the appropriate transmission benefit are the only NTS capacity charges that may be less than zero.

If the floor price for daily entry capacity booking were set based on the negative entry charges it would result in a more negative floor price for daily booking, creating an opposite incentive to that envisaged for entry points with positive entry charges. If the floor price for daily entry capacity bookings, at constrained LNG facilities, were set on the basis of the annual entry charge prior to the application of the transmission benefit, this would maintain an incentive for annual capacity booking similar to that at other entry points. Daily entry at constrained LNG facilities would be set on a basis consistent with the methodology at other entry points where there is no transmission benefit.

### 4. CONCLUSION

The floor price for daily capacity booking at LNG facilities should be set on a basis consistent with other entry points, to provide similar incentives. The floor price should be set at four times the daily annual rate, excluding any transmission benefit where that is included in the entry charge for annual entry capacity booking.

### QUESTION FOR CONSULTATION

**Transco would welcome respondents views on the following:**

**The desirability of extending daily entry services to include LNG facilities**

**The desirability of maintaining incentives for annual capacity booking at constrained facilities by excluding constrained benefits from calculations of floor prices.**