

TRANSCO PRICING CONSULTATION PAPER PC41

Transco Charges For Own Use Gas at Storage Facilities

SUMMARY

At present the NTS commodity charge is not applied by Transco for transportation of own use or cushion gas to storage facilities.

A proposal to apply commodity charges to own use gas at storage facilities was originally put forward by Transco in pricing consultation paper PC35. The proposal was vetoed in part because a satisfactory definition of what constitutes own use gas and the measurement standards required was not available. These issues can be overcome if all gas transported to a storage facility is subject to a commodity charge and all gas subsequently withdrawn from that facility is offered a matching rebate. An issue arises regarding measurement of initial stock quantities prior to introduction of the new methodology. Failure to take the initial stock levels into account leaves Transco exposed to a potential £7m outflow in the first year. Network Code Modification 329, which should be read in conjunction with this pricing consultation paper, would establish the appropriate measurement of initial stock quantities. This paper seeks views on the appropriateness of introducing a new methodology based on charge in, rebate out for commodity charges at storage facilities. If agreed the new methodology will be introduced from 30th April 2000.

1. INTRODUCTION

Gas transported to storage facilities is at present not subject to the NTS commodity charge. The commodity charge is applied when the gas is transported to an end user supply point. This is intended to ensure that a commodity charge for transportation of a quantity of gas is paid only once. In the past when pipelines and seasonal storage facilities were integrated within one company, gas delivered to a storage site was not technically offtaken from the pipeline system. A recent consultation paper, PC35, proposed that commodity charges should be applicable for own use gas and cushion gas used at storage facilities. Ofgas vetoed the proposal on the grounds of :

Definition of "own use" gas is required

Measurement methods need to be agreed

Unable to commit to a charge for cushion gas that would not be introduced for a number of years.

2. RELEVANT LEGISLATION

2.1 BG's PGT licence conditions

BG's PGT licence requires Transco to determine its transportation charges using a methodology which:

reflects the costs incurred by Transco

facilitates competition between shippers and between suppliers and

takes account of developments in the transportation business

2.2 Cushion gas

In PC35 Transco had indicated that it wished to apply commodity charges to quantities of cushion gas but that the introduction of charges for cushion gas should be delayed in order to facilitate the development of competitive storage facilities. Transco continues to believe that charges should be applied at a time close to when a service is provided.

Delay of payment, in the case of cushion gas, in excess of 20 years is akin to providing a substantial discount for that service. It has been argued that BG storage received free delivery of cushion gas when the relevant storage facilities were established. Such an argument seeks to make the charge for provision of services within the former monopoly business a benchmark for future transactions. Transco does not believe that this is a tenable argument for preventing further development of gas transportation services, particularly when it is applied to prevent further moves towards BG plc's licence requirements. In this instance the requirement is the advancement of further cost reflectivity. However it is also a licence requirement that Transco's charges should facilitate the development of competition within the gas business. Transco has sought to reconcile the two requirements by indicating that cushion gas should be charged on the same basis as own use gas at storage sites but that the application of charges should be delayed for a period to allow the development of independent storage facilities.

2.3 Definition of own use gas

Storage facilities burn gas on site when operating compression and catering or other facilities. A certain amount of gas is also delivered to the site that is then lost through shrinkage. In the future gas may be offtaken at the storage site to be consumed at other facilities. These may include power generation and/or domestic households.

It is possible to avoid the problems of definition of own use gas if commodity charges are applied to all quantities of gas delivered to a storage facility. In order to prevent double charging a rebate should be offered when a quantity of gas is withdrawn from a storage facility.

2.4 Measurement of own use gas

A number of methods may be applied when measuring own use gas. The simplest method for some operators may be to meter all gas consumed at a facility. Operators have raised concerns that this may prove to be an expensive requirement, depending upon the required measurement standards. Other operators have indicated that metering provides a simple method of measuring own use gas. Metering will also avoid any problems associated with the production of native gas, which otherwise has to be taken into account wherever appropriate.

An alternative measurement method that avoids the need to meter own use gas is the use of an algorithm. The calculation would need to take into account the aggregate input and withdrawals from a storage facility. Additionally changing stock levels in the storage facility would need to be taken into account. This latter feature is essential to ascertain how much gas is held in the storage facility on behalf of shippers or for use as cushion gas. The residual quantity of gas after subtracting stock and output quantities from the input quantities provides a measure of own use gas.

$$\text{Own use} = \text{Input} - \text{Output} - \text{Change in Stock level}$$

This model overcomes a potential problem of changing stock levels, an issue that may be of particular concern during the start up phase for new facilities. Measurement of stock levels is an activity that would be carried out on a periodic basis.

It is possible to have a measurement model that does not include measurement of stock levels. In this case commodity charges may be applied to all gas delivered to the storage facility, with matching discounts offered for all gas reintroduced to the pipeline system from that facility. This model may present a potential cash flow problem for shippers because discounts could not be offered until gas is withdrawn from the facility. If commodity charges are applied to gas delivered to a storage facility and rebates offered for withdrawals then it is possible to use the newly introduced logical metering for total quantities delivered and withdrawn from a facility. This option would also avoid the need for Transco to request information regarding gas stocks and/or consumption within the storage facility prior to determining the appropriate charge.

It has been suggested that commodity charges could be applied at a reduced rate for gas delivered to a storage facility and a further reduced rate could be applied when the same tranche of gas is delivered to a consumer. Transco does not believe that this option represents equitable treatment of shippers that use storage facilities when compared to shippers that choose not to use storage facilities. Further data complexity issues arise through a probable need to track quantities of gas that enter and depart storage facilities in order to satisfactorily handle their individual billing requirements.

3. FINANCIAL IMPACT

The present quantity of storage shrinkage gas is approximately 1GWh per day. The annual income obtained from applying the standard NTS commodity charge effective from May 1998 (0.0189p/kWh) for 1 Gwh per day is an estimated £69,000

The potential impact is greater if storage operators choose to develop, for example, a power generation capability at the storage facility. At the above commodity rate a 40GWh power station at 80% load factor may expect an annual commodity charge of approximately £2.2m

If commodity charges are applied for delivery of all gas to storage sites then the date of introduction of the methodology would have significance for the financial position of Transco and shippers. From the date when the methodology is introduced it may be expected that all gas that is already in store will escape the commodity charge for delivery to the storage facility. However that same gas could qualify for any rebate of standard commodity charges for gas subsequently withdrawn from storage. BG storage make available a total of 37,890 Gwh of space at its storage facilities. Based on a commodity charge of 0.0189 pence per kWh a total rebate for that gas of £7m could be due. This should be set beside the possible gain of £69,000 in the year commencing 1999 for own use gas. A gain in this manner for shippers who have gas in store would effectively be supported by shippers who have not used storage facilities. Transco believes large potential cash outflows for any party should be avoided. Measurement of opening stock levels and allocation to shippers prior to introduction of the methodology would therefore be required. All such quantities identified as already being within the storage facility at inception could be exempt from commodity charge rebates. Transco have raised Network code Modification 329 to establish with the industry how such quantities can be satisfactorily identified prior to introduction of a pricing methodology change.

Income could be lower if the optional NTS commodity charge were applied for any such own use gas quantities at the relevant shippers request.

4. TIMING

Logical meters are planned to be in place at all Storage facilities in September 1999. Introducing a system of charges and rebates relies on the logical meters being operational. In addition the problem of measuring opening stock levels may be kept to a minimum if the methodology is introduced at a time when stock levels may be expected to be at a minimum. Such an opportune time may be April, the end of the gas storage year.

If introduction of the new methodology is delayed until 30th April 2000 that may prove an appropriate time to introduce commodity charges for delivery of cushion gas. It is anticipated that at least one new independent storage facility will be in operation by that time.

QUESTIONS FOR CONSULTATION

Transco would welcome respondents views on whether Transco should apply NTS commodity charges from 30th April 2000 to all own use and cushion gas measured by the following method:

Apply commodity charges to all gas input into a storage facility and offer rebates for all gas withdrawn from a storage facility.