

TRANSCO PRICING CONSULTATION PAPER PC50

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 and cushion gas at storage facilities was originally put forward by Transco in pricing consultation paper PC35. The proposal was vetoed by Ofgem, in part because a satisfactory definition of what constitutes own use gas and the measurement standards required was not available.

The definition of own use gas was discussed further in PC41, and it was proposed that storage operators be given the choice of either metering own use gas or having a commodity charge applied to all gas input to the facility and then applying a matching rebate to gas which is subsequently withdrawn from that facility. Ofgem vetoed PC41 due to objection to the metering option, and the absence of the payment of interest by Transco on the time between “commodity in and rebate out”.

This paper, PC50, seeks views on the appropriateness of introducing a new methodology based on charge in, rebate out for commodity charges at storage facilities. If agreed, Transco propose that the new methodology be introduced from 1st May 2000.

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This paper, PC50, seeks views on the appropriateness of introducing a new methodology based on charge in, rebate out for commodity charges at storage facilities. If agreed, Transco propose that the new methodology be introduced from 1st May 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. Consultation paper PC35, issued in September 1998, proposed that commodity charges should be applicable for own use gas and cushion gas used at storage facilities. Ofgem 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.

Consultation paper PC41, issued in May 1999, and the related consultation report proposed that the storage operator should have the choice of either metering own use gas or all gas entering a storage facility being subject to a commodity charge and all gas subsequently withdrawn from that facility being offered a matching rebate. Ofgas vetoed the proposal on the grounds of :

- The metering option potentially gives Transco information on gas consumption downstream of its system

- Lack of a proposal to pay interest on the period from when the gas is put into storage and commodity rate paid, to when it is taken out and a rebate given, during which time Transco effectively receives an “interest free” loan.

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

Cushion gas is the minimum volume of gas which must be kept in a facility for it to remain operational. Transco proposes that gas transported to a storage facility for this purpose should attract a commodity charge as it is not offtaken from the system with the intent of returning it for the provision of a storage service. It would in fact be expected to remain in the facility for the lifetime of the facility and might or might not be returned to the system should the facility be de-commissioned. Should the cushion gas ever be returned to the system, the shipper delivering the gas would receive a rebate in accordance with the prevailing commodity charge. In essence this means that cushion

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gas would be treated as other gas offtaken at a Storage Connection Point but would not receive interest as described in 2.5 of this proposal.

2.3 Definition of own use gas

Storage facilities burn gas on site, for example, 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 facilities 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.

The “up-front” commodity charge may be lower if the optional NTS commodity charge were applied for any such own use gas quantities at the relevant shippers request.

2.4 Measurement of own use gas

PC41 considered the option of metering own use gas or measuring by means of an algorithm. These options have been rejected in favour of the “charge in, rebate out” option.

An issue arises regarding the need to measure initial stock quantities prior to introduction of the new methodology, otherwise shippers could be receiving a rebate on withdrawal of this stock without having paid an initial commodity charge - a potential £6m cost to Transco in the first year. Network Code Modification proposal 0329 can be developed by the Planning & Security Workstream to establish the appropriate measurement of initial stock quantities.

2.5 Interest payment

Under the proposal in this paper, Transco would be receiving commodity revenue when gas goes into storage, but only rebating the shipper after a time delay when the gas comes out of storage, which might be regarded in the interim as giving Transco an “interest free” loan. This paper therefore proposes paying interest to cover this period. Details of how these payments are to be calculated can be discussed further through the workstream and Network Code Modification proposal 0329 process.

It is, however, envisaged that storage users will trade gas within a storage facility. The Network Code will need to address how, in these circumstances, Transco would identify and calculate interest payments due to users. In addition, Transco should only pay interest on gas in storage, not on any gas which is used or lost. In order for Transco to calculate the interest it would therefore require daily information on gas used and lost. This is contrary to Ofgem’s decision on PC41.

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2.6 Changes in commodity charges

For gas that is routinely cycled during the storage year, it is quite likely that there will have been a change in the NTS commodity rate between the gas going into and coming out of storage. This raises the question of which rate should be used for the rebate. Complications set in where the commodity rate changes and inputs of gas are still being made, where not all input has been withdrawn after a year, and where there have been trades of gas within a storage facility.

QUESTIONS FOR CONSULTATION

Transco would welcome respondents views on whether Transco should apply NTS commodity charges from 1st May 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.

Views are also sought on the following :

How to take account of initial stock.

Whether interest should be paid for the time gas is held in stock, and what would be an appropriate rate to apply if payable.

How to deal with changes in commodity rates.

How to deal with trading within a facility.

How to identify the gas in storage on which interest is payable taking regard of gas used or lost.

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