February 2000

TRANSCO CONSULTATION REPORT ON PC50

Transco Charges for Own Use Gas at Storage Facilities

1. Transco's Initial Proposal

In PC50 Transco proposed that with effect from 1 May 2000, NTS commodity charges should apply to the transportation of all own use and cushion gas to storage facilities. It was proposed that this could best be achieved by applying commodity charges to all gas input into a storage facility, and then applying a rebate to all gas withdrawn from that facility. The rebate would include an amount relating to interest on the charge initially paid.

2. Summary

In total there were six responses of whom five were Shippers and the other from an Industry Group representative. Five respondents strongly opposed the proposed methodology, whilst one respondent was in favour of a simplified charge/rebate methodology.

3. Summary of responses

3.1 Own Use Gas

All respondents were in favour of charging for own use gas with differing views of the most suitable methodology (see 3.5).

Transco's response

Transco is pleased to find that there is agreement that there should be a charge for own use gas.

3.2 Cushion Gas

One respondent offered no comments on cushion gas, whilst the remaining five all opposed introducing a charge on the grounds of discrimination. There was also opposition to the charge on practical grounds whilst one respondent proposed a waiver on cushion gas entering storage. However, there was some sympathy from two respondents to the general principle of charging for cushion gas.

Transco's response

Previous consultations on this subject have highlighted the conflict between charging for future cushion gas to reflect the costs incurred at the time, and avoiding discrimination against new storage sites. Transco's final proposals reflect respondents' desire to avoid discrimination, and it is Transco's view that this outweighs the benefits of greater cost reflectivity.

3.3 Associated facilities

Two respondents thought that Transco's concern that storage operators might develop ancillary facilities (e.g. power stations) and avoid paying commodity charges were unfounded. One thought that the Storage Connection Agreement (SCA) prohibited this, whilst the other thought Transco could require the storage offtake point to be treated like a CSEP. The other four respondents did not comment on this aspect of the proposals.

Transco's response

Transco will continue to monitor developments and may bring forward charging proposals for such facilities in future if required.

3.4 Stock levels

PC50 stated that Transco faced a potential £6m loss of income by offering a rebate on gas leaving a storage facility without taking into account initial (non-cushion) stock levels. This calculation was based on the assumption that all storage space was filled with gas. One respondent pointed out that at 1st May 2000, the proposed start date of this methodology, the facilities would be somewhat less than full.

The same respondent suggested that this loss could be recovered by incorporating these volumes in 2000/01formula year volumes and transportation revenue.

Transco's response

A revised calculation of the likely loss faced by Transco in paying a rebate would be £2m (see 3.8 for further details). However, Transco's final proposal avoids the need to offer rebates.

3.5 Charging methodology

Five respondents opposed the charge/rebate methodology. The sixth stated that the methodology needed to be simplified to exclude charging for cushion gas, the payment of interest, and that only the latest commodity rate be applied to withdrawals from storage.

Three respondents pointed out that the administration costs associated with applying interest to the rebate could outweigh the interest paid. (An estimate of the likely range of interest payments is set out in 3.8). They also stated that Transco would need to track information downstream of the connection point in order to apply the proposed methodology, which would be contrary to Ofgem's apparent wishes. The other two opponents simply stated their preference for a metering solution without detailing drawbacks to the charge/rebate methodology.

In summary, most respondents favoured a metering solution or arrangements similar to those for CSEPs to provide Transco with volume figures of own use gas.

Transco's response

Transco agrees with the majority of respondents that the theoretical and practical problems associated with the charge/rebate methodology would add to the administrative burden of both Transco and shippers and require a level of intrusion which would be greater than through a metering solution. In view of the opposition to the methodology, Transco proposes that any charges should instead be based on a metering option.

3.6 Interest Rate

Three respondents opposed the methodology because of the complexity of the interest rate calculations that would be required. All thought that the cost and complexity of the calculation would be out of proportion to the revenue involved.

Transco's response
Transco agrees that the application of interest would cause complexity and increase costs for Transco and shippers which could be disproportionate to any cost reflectivity benefits. These costs can be avoided by basing any charges on a metering option.

3.7 Commodity Price Changes

One respondent recommended that any rebate should be made at prevailing commodity rates, obviating the need to track volume back to previous commodity rates.

Transco's response
This issue is another weakness of the charge/rebate methodology. If commodity rates are tracked, as initially proposed, then it would require a costly tracking and invoicing system. However, if rebates are paid at prevailing rates then there is a loss of cost-reflectivity. Transco considers that the issue is best avoided by basing any such charging on a metering basis.

3.8 Financial Implications

One respondent thought that a financial assessment of the likely costs and benefits should be circulated prior to Ofgem making a decision on this proposal.

Transco's response
The following tables give some rough estimates of the potential financial effects of various policies associated with storage gas.

In PC50 it was estimated that Transco faced a potential £6m cost by offering a rebate on gas leaving storage facilities for which no commodity charge had been levied on entry into storage. This estimate was made on the assumption that all BG Storage facilities would be full on the 1st May. It was pointed out that by implementing a charge from 1st May 2000, when stock levels would be at their lowest, the potential rebate would be significantly lower.

Based on the stock levels assumed in Table 1 below, a more detailed estimate of the potential rebate has been determined, giving a total of £2.2m (see Table 2).

Table 1
Estimate of (non-cushion) stock levels at 1/5/2000

	Available Space (GWh)	1/5/00 % of available space filled	1/5/00 est. stock level (GWh)
Avonmouth	827.20	55%	454.96
Dynevor Arms	275.75	55%	151.66
Glenmavis	551.45	55%	303.30
Isle of Grain	1,213.20	55%	667.26
Partington	1,194.85	55%	657.17
Hornsea	3,494.50	35%	1,223.08
Rough	30,333.68	35%	10,616.79
Total	37,890.63	37% average	14,074.21

Table 2
Potential loss to Transco of offering rebate on existing stock of gas.

Stock level (from Table 1)	14,074.21 GWh
NTS Commodity Charge	0.0159 p/kWh
Potential rebate	£2,237,799.47

In its response to the PC41 consultation report, one of the reasons given by Ofgas for vetoing the proposal was that Transco was not compensating shippers, by paying interest, on the period between charge and rebate whilst Transco held their cash. Tables 3a and 3b give some estimates of the likely range of interest payments based on differing interest rates and stock levels.

Table 3a
Potential interest "earned" by Transco on up-front revenue from time between commodity earned on gas entering storage and rebate given when gas returned to the system.

Remaining space available for BG Storage to sell	23,816.42 GWh (37,890.63-14,074.21)			
NTS Commodity Charge	0.0159 p/kWh			
Commodity revenue	£3,786,810.70			
Interest rate (one year)	5.75%	6.75%	7.75%	8.75%
Interest rate (6 months)	2.88%	3.38%	3.88%	4.38%
Interest "earned"	£109k	£128k	£147k	£166k

Table 3b
Interest "earned" if storage facilities were totally empty, then all space filled, then totally emptied again.

Space	37,890 GWh

Interest "earned" from	£173k to £264k

4. Final Proposal

Transco has noted respondent's opposition to the charge/rebate methodology proposed in PC50 and the high level of support for a simple solution that addresses charging for own use gas only.

Transco proposes the following changes to the charging regime :

Commodity charges should be payable for own use gas consumed at storage sites from 1st May 2000. Own use gas should be identified through storage operators providing Transco with the required volume/energy figures for own use gas for the applicable period, with Transco having a right to verify these.

The details regarding how to identify own use gas should be agreed at an appropriate Network Code Workstream and can be progressed via Modification Proposal 0329.