April 2002

Pricing Consultation Paper PC73

Structure of the NTS SO Commodity Charge

SUMMARY

The proposal based upon Pricing Consultation Paper PC70 established that the SO commodity charge applies to gas offtaken at exit points from the NTS. This paper proposes that the charge should also apply to all gas entering the gas transportation system at system entry points.

This proposal will not change the target level of revenue to be recovered through the NTS SO commodity charge. It is proposed that the same level of charge be applied for both entry and exit such that roughly 50% of the revenue collected is obtained at entry and at exit respectively. The unit commodity charge rate applicable would be roughly half that which would otherwise apply on an exit-only basis.

It is envisaged that this change to the charging structure would be introduced from October 2002.

1. Introduction

The present NTS SO commodity charge, established by PC70, applies to gas offtaken at exit points from the NTS. As noted in Ofgem's decision letter on PC70, Transco agreed to raise a further pricing consultation in order to seek views on levying the charge on both entry and exit flows from 1 October 2002.

2. Benefits and Impact of Change

With the present structure, the commodity charge is levied on Shippers transporting gas to exit points. Shippers who bring gas into the system and trade it at the National Balancing Point are not liable for the commodity charge. The commodity charge is set so as to raise the large majority of the allowable System Operator revenue, which is based upon SO costs and the incentives around those costs.

Allocating throughput related costs to particular parts of Transco's network or to particular activities is necessarily arbitrary. Levying the charge on both entry and exit flows could, however, be regarded as better reflecting the costs incurred, and would ensure all Shippers using the NTS would contribute directly to the revenue raised through commodity charges.

However, at present where gas is traded at the NBP it would be expected that the cost of transporting gas from the NBP to the supply point would be taken into account in determining the attractiveness of the price of any trade. If the price of transporting gas from the NBP decreases, and the price of transporting gas to the NBP increases by the same amount, then it would be expected that this would be reflected in the typical price of gas

traded at the NBP. Thus, in practice, such a change to the charging structure is only likely to change the effective contribution of each Shipper to total SO revenue to the extent that NBP prices do not fully adjust following any change in charging point.

3. Implementation of the Change

Implementation of the change may require modification to the Network Code and to billing systems. These modifications will be pursued in parallel to the charging methodology process with the aim of enabling implementation of the change, if proposed following consultation, from 1 October 2002.

It is envisaged that the charging on entry flows would be implemented through a charge based on the User Daily Quantity Input (UDQI) at each entry point. However, such detail will be contained within any Network Code modification.

It is proposed that the charge would apply at all system entry points and that the same rate of commodity charge would apply at both entry points and exit points. It is therefore expected that the unit commodity charge rate which would apply would be half the rate which would otherwise apply on an exit-only basis.

4. Question For Consultation

Views are invited on the appropriateness of changing the transportation charging methodology such that the NTS SO standard commodity charge applies to gas flows at all entry and exit points with the same rate of charge applying at both entry and exit.