

NTS Charging Arrangements for DN Embedded Entry Points

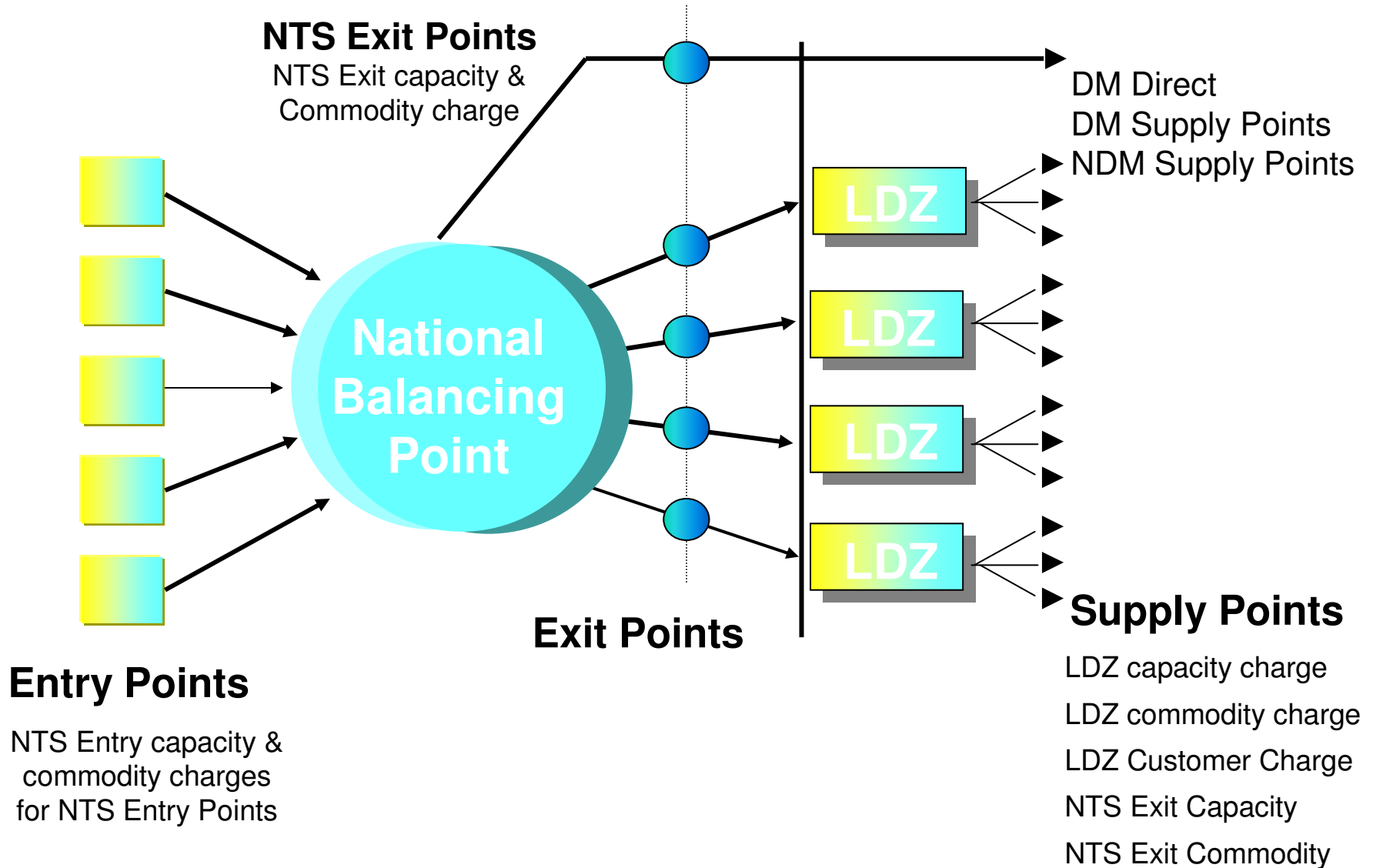
Gas TCMF 2nd September 2010

Issue

- Plans are progressing to inject bio-methane into the distribution networks
- NTS Entry capacity and commodity charges do not apply at DN Entry points from the implementation of UNC 0154.
- NTS Exit charges would still automatically apply to the bio-methane offtaken at an offtake within the DN, despite the gas not being physically transported by the NTS
- Objective of this presentation is to;
 - establish what NTS charges would be charged and why;
 - seek views on determining whether changes should be proposed to charging methodologies/ UNC

The Uniform Network Code

Overview of the commercial model



Overview

- Under the prevailing arrangements an exit point within an LDZ will attract
 - NTS Exit Capacity and
 - NTS Exit Commodity charges
 - in addition to the LDZ capacity, commodity, and customer charges.
- NTS Entry Charges are avoided for DN Entry Points
- Entry and Exit charges are independent and hence the charges are levied at an exit point irrespective of whether the shipper to that supply point has entry allocations at an entry point within the LDZ or not.

Exit Reform

- Under the prevailing exit arrangements
 - DNOs book NTS Exit Capacity via the Offtake Capacity Statement (OCS) process.
 - The LDZ exit points will attract NTS Exit Capacity & Commodity charges.
- Under the enduring exit arrangements
 - DNOs will book and pay for NTS Exit Capacity and will pass these costs on to an exit point within an LDZ.
 - The LDZ exit points will also attract NTS Exit Commodity charges.

Costs

- If lower NTS Exit Capacity related costs were incurred as a result of a DN Entry point, there may be a case for those cost savings to be passed on to the relevant shipper
- If lower SO costs were incurred as a result of the DN Entry point flows, there may be a case for those cost savings to be passed on to the relevant shipper .
- Cost savings might only be guaranteed through a high expectation of flow.
 - This might be analogous to the NTS Constrained LNG (CLNG) arrangements where there is a contract to flow.

Potential Avoided Costs

■ TO Avoided costs

- Exit Investment costs might be avoided if exit flows into the relevant LDZ were lower as a result of the DN entry flow.
 - *May increase other NTS costs as gas, which might otherwise have flowed into the DN, flows further into the NTS*
- This might suggest that the NTS Exit Capacity Charge is an avoided cost.

■ SO Avoided costs

- Gas transported between a DN entry and exit point would not physically pass through the NTS and hence compression costs might be avoided along with system operator internal costs associated with running the system
- NTS Shrinkage and some Operating Margins costs might also be avoided
- *System operator internal costs associated with commercial arrangements such as balancing (commercial connection to the NBP) might not be avoided*

Potential Changes to the Charging Arrangements

- It would be difficult to give a credit/rebate directly to a relevant exit point
 - How would a relevant exit point be identified through the commercial arrangements?
 - Entry and exit flows are accounted for separately other than for optional (“short-haul”) commodity arrangements which are limited to daily metered (DM) supply points
- Cost savings might be passed through to the entry point (i.e. a credit could be paid)
- If these arrangements were to be introduced they would require a Charging Methodology change and potentially a UNC change.

Way Forward

- Views are invited as to;
 - Whether this is an appropriate issue for the Gas TCMF?
 - How this issue should be taken forward?
 - what further analysis might be required?