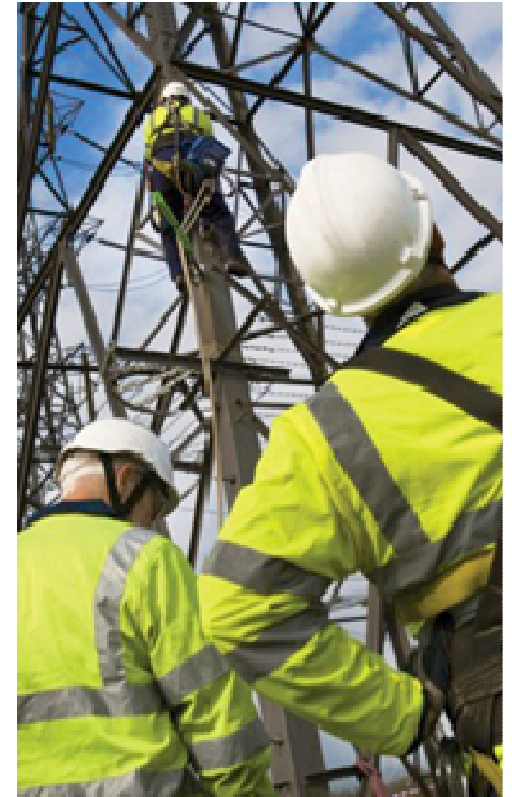


NTS Optional “Short-haul” Commodity Charge Review – Update & Next Steps

Gas TCMF 22nd February 2010



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Introduction

- ◆ This presentation provides an update on the review of the NTS Optional (“Short-haul”) Commodity Charge
 - ◆ The key issue remains avoiding inefficient by-pass of the NTS while avoiding inappropriate discounts.
 - ◆ The NTS Charging Discussion Paper (GCD07) considered two broad approaches with sub-options

Option	Methodology	Detail
1a	Update prevailing methodology, based on annuitised construction costs of alternative pipeline and terminal connection, to reflect latest costs.	10 year annuitisation (unchanged)
1b		45 year annuitisation
2a	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance
2b	As option 2a plus annuitised construction costs of terminal connection (effectively a hybrid of 1 & 2).	10 year annuitisation
2c		45 year annuitisation
2d	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance and SOQ

GCD07 Responses – Charging Methodology Changes

Option	Methodology	Detail	Response
1a	Update prevailing methodology, based on annuitised construction costs of alternative pipeline and terminal connection, to reflect latest costs.	10 year annuitisation (unchanged)	Seven respondents (AEP, BGT, CON, EDF, EON, RWE, SSE) supported 45 years. AEP states 'We consider if this approach is favoured then an annuitisation period of 45 years should be used consistent with other NTS pipelines.'
1b		45 year annuitisation	
2a	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance	RWE made the following statements 'When considering the shorthaul tariff from the perspective of the relevant SO costs incurred whilst it seems logical to derive a distance based commodity price function using the NTS peak flow distance (Option 2a) we do not believe this is a credible option in its own right. Option 2a will significantly reduce the benefits to the industry resulting from incentivising NTS connection (rather than bypass) and could disproportionately affect the NTS SO Exit Commodity Charge by comparison with other options. It may also potentially breach EU Regulations.' [distance related only]
2d	Revise methodology to reflect SO costs relating to flows over short distances.	SO costs allocated to Distance and SOQ	
2b	As option 2a plus annuitised construction costs of terminal connection (effectively a hybrid of 1 & 2).	10 year annuitisation	There has been no support for the inclusion of a connection cost element within Option 2. This element will therefore not be taken forward. This means that Option 2b and Option 2c can be removed from further consideration.
2c		45 year annuitisation	

GCD07 Responses – other/UNC changes

Issue	Responses
<u>Removal of Application to Storage Injection (NTS Exit)</u>	Seven respondents (AEP, CE, CON, EDF, EON, RWE, SSE) agree that the short-haul tariff should not be applicable at storage exit points.
<u>ASEP Location - Distance from ASEP to exit point</u> (This is currently the straight line distance (km) from the boundary of the exit point to the ASEP, but would be more efficient to use the closest entry point)	Six respondents (AEP, BGT, CON, EON, RWE, SSE) agreed that in the case of ASEPs with more than one SEP, it is appropriate to measure the distance to the nearest SEP.
<u>Limit application</u> (Development of the original service implied it should be limited to the nearest ASEP; however, limiting to between the ASEP and upstream of the next compressor is more appropriate)	Four respondents (AEP, BGT, EDF, SSE) agreed. Three respondents (CON, EON, RWE) did not agree
<u>Removal of Alternative Allocation Rules</u> (The default is to prorate when supplies are less than demand for two or more short-haul exit points linked to the same ASEP. Alternative rules can be requested (with NG approval) but would involve systems changes`)	Three respondents (AEP, CON, SSE) agree with present default option. Three respondents (BGT, EON, RWE) expressed a wish to retain a right to request an alternative option 'EDF Energy recognises that currently system limitations prevent the application of alternative arrangements. However another potential solution would be to allow the application of alternative arrangements as a User Pays service.'

Way Forward

- ◆ The intent is to further develop the charging options included in charging discussion paper (GCD07)
- ◆ One consultation document containing separate proposals for either
 - ◆ updating the existing methodology (1b)
 - ◆ Introducing an SO cost allocation methodology (2d)
- ◆ Raising a UNC proposal to facilitate change to the short-haul arrangements
 - ◆ Support was received for aspects of the UNC changes irrespective of which price setting approach is taken.