



20 November, 2006

Consultation on Modification Proposal to Gas Transmission Transportation Charging Methodology – Modification Proposal NTS GCM03 – Introduction of a SO Commodity Charge for NTS storage facilities
Comments from the Association of Electricity Producers

The Association of Electricity Producers (AEP) is the UK trade association representing electricity generators. It has some 90 members ranging from small firms to large, well-known PLCs. Between them they represent at least 90 per cent of the transmission connected generating capacity and they embrace nearly every generating technology used in the UK. Many member companies have interests in the production and development of renewable energy where the government has set ambitious targets for development over the next decades.

The Association welcomes the opportunity to provide comments on this pricing consultation paper. We acknowledge that the introduction of the SO commodity charge for exit flows at NTS connected storage sites is not a new issue. Indeed the Network Code and charging methodology have been out of alignment since PC73 was not vetoed in 2002. We therefore welcome further consideration of this issue.

The Association does not support this proposal as we consider it introduces discriminatory arrangements between storage connection points and other offtake points. Whilst we accept that some kind of charge is better than no charge at all at storage connection points we consider that the charge should be based on the same principles as at other offtake points that being a charge levied on gas that is actually offtaken.

It is clear that in developing this proposal National Grid has been selective in the parts of Ofgem's decision letter on modifications 532,545 & 547 to which it refers. It conveniently ignores other points made by Ofgem...

- *...any particular benefits provided by storage sites to Transco as system operator should not be factored into the calculation of the SO commodity charge....should be reflected in system management services agreements.'*
- *... shippers flowing gas into storage should not be treated differently to other users of the NTS in bearing a proportion of throughput based charges...*
- *...storage sites are not necessarily unique in the benefits that they provide in terms of system operation.*
- *...users of pumped storage facilities do not benefit from exemptions from NGC's BSUoS charges in the electricity sector.*

Whilst we note that Ofgem's decision letter did suggest that a discounted commodity charge might be appropriate to minimise the potential for double counting this was on the basis of storage users not bearing an unreasonable share of the overheads associated with operating the system. NG is not proposing to exclude overhead

costs from the commodity rate rather elements that relate to transporting gas. In any case we expect that Ofgem's thinking has moved on since this decision letter was issued, gas distribution networks have been sold and new European legislation is now in place.

Following on from the sale of gas distribution networks, Ofgem determined that all offtakes should be treated in a non-discriminatory manner indeed this is required by the EU gas regulation 1775/2005 on conditions for access to gas transmission networks. Whilst we note that tariffs should also reflect other factors as listed in section 4.4 of the consultation document, the explanatory note on tariffs (currently in draft) shortly to be issued by DGTREN further emphasises the importance of non-discrimination. It states: *Tariffs for identical services offered by individual TSOs should be identical. Tariffs must be the same for the same service for all system users. Discounts or any other special treatment is not allowed anymore.* Also during the development of the enduring exit arrangements Ofgem has consistently argued that all offtakes should be treated in the same manner in order to ensure non-discrimination. This is not a position that the industry generally supports and considers that it would not be unduly discriminatory to provide different services to different types of offtakes. Ofgem does not however agree with this view.

In the context of this consultation the question then seems to be whether the service provided by NG in providing capacity and transporting gas to storage offtakes is different from that provided at other offtakes. If the service is different then it may be appropriate to apply a different charge. However this would have implications for reform of the NTS exit capacity arrangements as clearly there must be a consistent approach between charging and services provided by the transporter.

Further comments

We do not understand the argument for applying a different commodity rate for storage own use gas and gas which uses the same transportation network and route that is stored and subsequently re-injected into the network. There was a case for this when the whole system, including storage was owned and operated by the same entity. But this is no longer the case and Ofgem has identified that any system benefits should be remunerated in a different way. In the context of Ofgem's views on non-discrimination it does not seem consistent to treat storage offtakes any differently than other offtakes nor to treat cushion gas any differently than storage gas. This view is reinforced by Centrica Storage's recent announcement that it will increase the space offered by offering for sale some of the gas normally used as cushion gas.

National Grid suggests that compression costs should be excluded from the storage commodity charge as the use of compression is a function of the distance travelled and it is considered that the gas contained in storage has not necessarily used more of the NTS than gas that has bypassed storage. We are not aware of any restrictions on the location of storage facilities in relation to distance from entry points. Indeed if storage points are located particularly close to entry points and gas flows from that entry point to the facility then it may opt for the optional commodity charge. This was introduced to take account of distance related effects and to disincentivise dual pipelines. The relevance of whether the gas that flows to storage has used any more *or less* of the NTS than gas that bypasses storage is also not clear. It would only

seem safe to assume that it has used an average amount of the NTS. Otherwise similar arguments should apply to other offtakes that are adjacent to storage offtakes.

National Grid also suggests that operating margins costs should be excluded as these relate to the need to support firm exit flows at or around peak periods and these costs do not relate to storage as they are interruptible. A similar case could be made by all other interruptible sites that currently pay the full SO commodity rate. Also if National Grid's mod 116 is implemented then NTS interruptible status will no longer exist from October 2010. Operating Margins are also used to support system pressures whilst gas for supply / demand balancing is nominated and for the orderly run down of the network. As both of these could be related to the unavailability of storage then it would seem reasonable that gas that flows to storage should not be exempt from these costs.