

Enduring Offtake Working Group 6      8 March 2006

A paper for consideration by the working group submitted by Mike Young, Centrica

**User Commitment Models - This describes a potential solution to identify the appropriate party to provide commitment to future use of system capacity.**

The Gas Act provides for a party wanting to make arrangements for the transportation of gas through a transmission or distribution network, but stipulates that this must be undertaken by an organisation which is appropriately licensed. Hence the only parties able to undertake this duty are Shippers. Arising from the recent sale of distribution networks, dispensation has been given to distribution network owners to allow them to enter into arrangements for the transportation of gas from the transmission owner by means of a licence exemption.

In the context of User commitment models for the NTS this has been interpreted as requiring the User (Shipper or DN under the exemption described) to enter into a long-term agreement with the NTS in order to provide reliable signals of future system use for purposes of planning and investment. It is generally accepted that for the purpose of investment this forward period must be at least three years in order to facilitate the lead-time for capital projects. For DNs this does not present a difficulty as their relationship at each Offtake is enduring. However for Shippers offtaking gas on behalf of Direct Connected consumers, this relationship is transient as it would be only for the duration of the supply contract, usually one year or less.

In order to enable the party with an enduring involvement with the Offtake of gas at that exit point it is proposed that this User Commitment be provided by the consumer.

It is suggested that this could be done by means of some form of reservation undertaking from the consumer that would guarantee two things.

Firstly, that the defined level of capacity was required and reserved for their use. This would likely be on a rolling forward period. The duration of this period would be determined by the lead times for investment signals being discussed within the group. The commitment would include an obligation to pay for the reserved level of capacity at the specified rate. (This could either be set at the time of reservation or refer to the prevailing rate at the time of use. This point would be in line with the ongoing discussions with regard to allocation mechanisms.)

Secondly, the consumer would undertake that they would engage the service of a licensed Shipper in order to provide the transportation service through the capacity reserved. This may not be required as it is explicit within the Gas Act!

The views of members of EOWG are invited on this suggestion

NB – for the avoidance of doubt, this paper is simply a working document and does not necessarily include the endorsement of Centrica at this time.

