

Direct Dial: 020 7901

7021

16 August 2002

Transco, Shippers and Other Interested Parties

Our Ref:

Net/Cod/Mod/534

Dear Colleague,

Modification Proposal 534 – “LNG Withdrawal Ramp Rates”

Ofgem has considered the issues raised in Modification Proposal 534 – “*LNG Withdrawal Ramp Rates*” – and has decided not to direct Transco to implement the modification because we do not believe that it better facilitates the relevant objectives of Transco’s Network Code in Standard Condition 9 of Transco’s gas transporters licence. In this letter, we explain the background to the modification proposal, the nature of the proposal and give our reasons for making this decision.

Background

Users of Transco LNG Storage’s (TLNGS) facilities make withdrawal nominations on TLNGS’ Customer Access and LNG Management System (CALMS). Such nominations can be made on the gas day itself and any subsequent re-nominations are made in the same way. TLNGS does not apply any ramp rate restrictions with respect to any withdrawal nominations.

Under the current arrangements, all withdrawal nominations and subsequent re-nominations are subject to the lead times as published in TLNGS' annual Operations Statement. Each of the five LNG facilities has a different lead-time. Accepted nominations are 'allocated whole' even though the LNG facility's physical capability to export gas may vary from hour to hour. The Storage Operator therefore might have to meet any difference between the accepted nominations and the flows that have actually been achieved.

Additionally, TLNGS as the Storage Operator still has overall responsibility for ensuring that the total quantity of gas withdrawn from one of its facilities meets the requirements of its Storage Connection Agreement with Transco, including any ramp rate criteria.

The modification proposal

Modification 534 proposes the introduction of required ramp rates and overrun charges to govern changes in withdrawal nominations. The main points in modification proposal 534 are as follows:

- a) changes in withdrawal nominations at TLNGS' facilities would be subject to ramp rate restrictions;
- b) these restrictions would be based upon the physical ability of the LNG facility to accommodate changes to the flow rate;
- c) TLNGS would publish details of these ramp rates in its Annual Storage Invitation;
- d) TLNGS would have the right to reject any change in withdrawal nomination that was not consistent with the published ramp rate provisions or if the change could be physically accommodated by the plant, it would reserve the right to make an overrun charge; and
- e) the overrun charges would also be published in the Annual Storage Invitation.

Respondents' views

Two representations were received in response to this modification proposal. Both respondents supported the proposed modification.

One respondent stated that this proposal would help potential Users of LNG to determine the locational value of LNG services and that this would benefit not only their bidding strategies but that the increased clarity would also encourage the subsequent trading of LNG services. Another respondent agreed with the need for clarity regarding the operating rules prior to the close of the LNG Annual Storage Invitation on 9 April. The respondent stated that they would be grateful for an early decision from Ofgem as the changes envisaged in this proposal could influence the actions of potential storage users in the current LNG tender process and the value of alternative services available from other parties.

A respondent commented that currently TLNGS and not LNG Users faced much of the commercial risk associated with not having lead-times applicable at the LNG facilities. One way for TLNGS to mitigate this risk was to have longer lead-times, although this would be unhelpful and could diminish the value of LNG services.

One respondent stated that the legal text wording in respect to "ramp factors" did not reflect the intention of the Modification Proposal. It suggested that the legal text required that the ramp factors are updated promptly so as to reflect the stand-by status of any plant at any time to reflect at any time realistic estimates of the rates of turn-up likely to be achievable. Otherwise LNG users are exposed unnecessarily to the over-run and interruptible provisions and hence to unnecessary uncertainty. Failure to do so might mean that LNG customers were unnecessarily exposed to the overrun and interruptible provisions, and hence to unnecessary uncertainty.

Transco's Response

Transco concurred with the view that a decision on implementation of this Modification Proposal prior to the Annual Storage Invitation would assist potential storage users in the decisions they make, including their bidding strategies.

Transco also recognised that TLNGS could manage its present risk exposure by setting cautious re-nomination lead times but doing so would not be in the interests of LNG customers. It concurred with the view that implementation of this modification proposal would give TLNGS a more appropriate method of managing its commercial risk.

In response to the comment regarding the legal text, Transco stated its view that the revised legal text addressed the issue raised.

Ofgem's view

Ofgem recognises the desirability of deciding upon this modification prior to the close of the auctions for the 2002 / 03 storage year, although TLNGS has informed us that LNG customers' bookings of LNG capacity did not appear to have been affected by Ofgem not giving a decision by that time.

Other things being equal, better defined services can be expected to further the relevant objectives contained in Transco's Gas Transporters' (GT) licence. However, because it is proposed that the revised terms of access to the LNG facilities are not specified in the Network Code but instead set out in the Annual Storage Invitation, TLNGS is left with significant freedom to set out the terms of access in such a manner as that might be to the detriment of LNG customers. Moreover, the modification also involves the introduction of overrun charges for unbooked but available flexibility. The current arrangements effectively have a Use-It-Or-Lose-It (UIOLI) price of zero in relation to the use of such overruns. The modification would result in overrun charges being introduced, but no methodology is provided for how such charges would be applied. Rather, applicable charges would be published in the Annual Storage Invitation.

Any consideration of this modification is also dependent on other factors that are currently under review. These include a decision on Modification Proposal 548 – *'Removal of Section Z and Related Changes to Network Code'* – and Ofgem's

consultation document on Transco's proposed separation of TLNGS into a non-regulated Lattice Group company and the associated market power concerns.¹

Ofgem's decision

Against this background, Ofgem has decided not to direct Transco to implement this modification. We do not believe that it better facilitates the relevant objectives in Standard Condition 9 of Transco's GT licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number or Amrik Bal on 020 7901 7074.

Yours sincerely,

Kyran Hanks
Director, Gas Trading Arrangements

¹ Transco's proposal to transfer its Liquefied Natural Gas facilities to a non-regulated Lattice Group Company. A consultation document, Ofgem July 2002.