Final Modification Report
Modification Reference Number 0388
Removal of Storage Balancing Arrangement

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1.   The Modification Proposal:

Under the Storage Balancing Arrangement (SBA) detailed in Section R 2.2 of the Network Code, a Storage Operator, if also a User, can aggregate shippers' balancing and scheduling tolerances against its own account at a Storage Connection Point (SCP). This service is not available to other Users of Transco's System

Transco proposes to amend the Network Code to bring arrangements for the treatment of tolerances at Storage Connection Points in line with other exit and entry points on the NTS by removing the Storage Balancing Arrangement service.

Given everything else remaining equal this Modification Proposal will increase Users' tolerances at SCPs and consequently is expected to reduce their costs. Storage Operators costs may be expected to increase as a result of this change.

Pursuant to Section R 2.2.1 of the Network Code, where a Storage Operator and Transco have elected for a SBA to apply, Shippers User Daily Quantity Inputs (UDQI) will always be equal to their nominations at the relevant SCP, i.e. Shippers are 'allocated whole' to their nominations. It follows that a shipper cannot incur an Unauthorised Gas Flow (UGF) charge at a SCP where a SBA has been elected. However, removal of the SBA will result in Users being exposed to the risk of incurring Input UGF charges at SCPs. This is inconsistent with the treatment of all other System Entry Points (SEPs) on Transco's System.

Transco proposes to remove this risk by initially inserting zero nominations on behalf of all Users with activities set up at a SCP on AT Link and apply rules which are consistent with modification 0232; until a more suitable systems solution is developed. This will remove the risk of Users of Storage Facilities incurring Input UGF charges.

2.   Transco's opinion:

The provision of a Storage Balancing Arrangement and hence the treatment of tolerances at Storage Connection Points could be considered discriminatory relative to arrangements which exist for other entry and exit points.

If the SBA provisions are removed from the Network Code it could expose Users to Input UGF charges. Shippers' exposure to Input UGF charges were removed at all other SEPs when Modification Proposal 0232 was implemented. It is Transco's opinion that it could be viewed as discriminatory if Users of Storage Facilities are exposed to the risk of incurring Input UGF charges when this risk has been removed at all other SEPs.

Users of Storage Facilities would no longer be allocated whole to their nominations. If gas flows and the shipper has failed to obtain an approved Input Nomination against the relevant SCP and is allocated gas an Input UGF charge will be incurred. At all other SEPs located on the NTS this risk is managed on behalf of shippers by Transco. At all SEPs (with the exception of SCPs) the method used to disable the application of Input UGF charges is for an Input Nomination of zero to be entered for each User at each SEP by Transco on their behalf. If gas flows at the SEP, the shipper will not be exposed to UGF charges; scheduling charges would remain.

Transco believes that if this change is not implemented then the treatment of Users' tolerances at Storage Connection Points would be inconsistent with the treatment of Users' tolerances at other Entry and Exit points and all SCP's where a SBA service has not been taken up.

Transco does not believe that it is either practical nor desirable for it to offer the Storage Balancing Arrangement service at all other Entry and Exit points.

Transco believes it to be fair to ensure Users face no increase in commercial risk from removal of the SBA and consequently it would be reasonable to ensure consistent treatment of Input UGF at all SEPs.

3. **Extent to which the proposed modification would better facilitate the relevant objectives:**
The purpose of this Modification Proposal is to ensure that contractual arrangements regarding tolerances at entry and exit points (including SCPs) are standardised under the Network Code. It also helps to facilitate Transco's obligations under its PGT Licence within Standard Condition 7 (b), by ensuring non-discriminatory treatment of Users as required by Standard Condition 11.

4. **The implications for Transco of implementing the Modification Proposal , including:**

   a) **implications for the operation of the System:**
      Transco is not aware of any implications for the operation of the System which would result from the implementation of this Modification Proposal.

   b) **development and capital cost and operating cost implications:**
      Transco would wish to modify its systems to remove the administrative burden of inserting "zeros" for all Shippers at all SEPs as a result of implementing this Modification Proposal.

      No capital cost implications of implementing this Modification Proposal have been identified.

      Initially Transco will incur additional costs of administration as a result of implementing this Modification Proposal, although it is thought these costs would be temporary until a systematised solution is introduced.

c) **extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:**
Transco will not seek to recover any costs associated with the implementation of this Modification Proposal.

d) **analysis of the consequences (if any) this proposal would have on price regulation:**
There would be no consequential effect on price regulation of implementing this Modification Proposal

5. **The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal:**
The level of contractual risk to Transco under the Network Code would remain unaffected as a result of implementing this Modification Proposal.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Users:**
If this Modification Proposal is not implemented Transco would have to make significant changes to the structure of AT-Link before it is able to offer the SBA to more than one Storage Operator at the same time. However, if this Modification Proposal was to be implemented then there would be no development or other implications for Transco's computer systems or related computer systems of Users, other than those identified in section 4(b).

7. **The implications of implementing the Modification Proposal for Users:**
This Modification Proposal, if implemented, would ensure that Users, other than the Storage Operator, will receive greater tolerances on gas which has been allocated to them at a Storage Connection Point. With all else being equal this would increase their tolerance quantity which could provide additional protection against an exposure to marginal priced cashout rates.

Those Storage Operators that are Users and have a Storage Balancing Arrangement currently enjoy a benefit of tolerances based on the aggregate of their customers nominations. If this Modification Proposal is implemented then the benefit they currently enjoy will be removed and the tolerances will be based on their allocated gas quantities. For Storage Operators this is likely to result in smaller tolerances and a consequential increase in exposure to marginal priced cashout rates.

If the SBA is removed then Users will not face any undue commercial exposure through Input UGF charges.

Users of storage services where the Storage Operator does not wish to have a SBA will continue to receive an allocation which is pro-rated to their nomination even if this Modification Proposal is implemented.

8. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators, suppliers, producers and, any Non-Network Code Party:**
The existence of a SBA ensures that Users are allocated a quantity of gas to match exactly their nomination at the Storage Connection Point automatically by AT-Link, except for the Storage Operator which is allocated the variance between the physical flow and the net sum of non Storage Operator allocations at the SCP.

If this Modification Proposal is implemented then Storage Operators will still be able to allocate whole if they choose to. Allocating whole will require the Storage Operator to use an allocating agent to overwrite the pro-rated default allocations which would be generated by AT-Link post 1 July 2000.

9. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal:**
Transco has not identified any impact on the legislative and regulatory obligations or contractual relationships of Transco, each User and Non-Network Code Party which would result from the implementation of this Modification Proposal.

10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal:**

Advantages:

• The treatment of tolerances at Storage Connection Points will be consistent with those at other exit and entry points on the NTS.

• Users' tolerances at SCPs will increase and consequently their costs may reduce.

• Treatment of Input UGF charges at Storage Connection Points will be consistent with those that exist for all other System Entry Points. This will reduce Users' commercial risk exposure, particularly with the advent of competition in storage if Storage Operators had chosen not to have a SBA.

Disadvantages

• The costs of Users that are also Storage Operators may be expected to increase as a result of this change.

11. **Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):**
Representations were received from Scottish Power, British Gas Trading (BGT) and Total Gas Marketing. All expressed support for this Modification Proposal.

12. **The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:**
This Modification Proposal is not required to facilitate compliance with safety or other legislation.

13. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**
This Modification Proposal is not required as a result of any change in the methodology established under Standard Condition 3(5) of its PGT Licence.

14. **Programme of works required as a consequence of implementing the Modification Proposal:**
• Prevent the take up of any new Storage Balancing Arrangements;
• Establish a manual process to prevent the application of Input UGF charges at SCPs in the short term;
• Develop a systems solution to prevent the application of Input UGF in the medium term.

15. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**
• Manual Input UGF prevention process established prior to 1 July 2000;
• Modification Proposal implemented as from 1 July 2000.

16. **Recommendation concerning the implementation of the Modification Proposal:**
Transco recommend this Modification Proposal be implemented with effect from 06:00 on 1 July 2000.

17.   **Restrictive Trade Practices Act:**

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18.   **Transco's Proposal:**

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report

19.   **Text :**

Section C

Paragraph 3.2.4:   Delete ". . . not being a Storage Connection Point . . .".

Section F

Paragraph 2.2.1 (a)(iii) :   Delete ", other than Storage Balancing Connection Points".

Paragraph 2.2.1 (a)(iv) :   Delete ", other than Storage Balancing Connection Points".
                              After ". . . System Entry Points;" insert "and".

Paragraph 2.2.1 (a)(v) :   Delete.

Paragraph 3.4 :   Delete.

Section R

Paragraph 2.2 :   Delete.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0388**, version **2.0** dated **23/06/2000** be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

The Network Code is hereby modified, with effect from   , in accordance with the proposal as set out in this Modification Report, version **2.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

    (i)   if a copy of the Agreement is not provided to the Director General of Gas Supply ("the Director") within 28 days of the date on which the Agreement is made; or

    (ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

    provided that if the Director does not so approve the Agreement then Clause 3 shall apply.

2. If the Director does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Director does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Director would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Director pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.