

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

Version 2.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

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, 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 4(5) or the statement furnished by Transco under Standard Condition 4(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 (including 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.

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.

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

17. 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.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: