TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0393
"Disposal of Operating Margins/Top-Up Gas"
Version 1.0

Date: 15/03/2000

Proposed Implementation Date: 12/04/2000

Urgency: Non-Urgent

Area of Network Code Concerned

Sections K and P

Nature of Proposal.

When, at the commencement of a Storage Year, the inventory of Operating Margins Gas (OM) or Top-Up Gas (TU) is greater than the storage space held by Transco for that purpose, under the Network Code Transco has a requirement to dispose of that surplus.

At present under the Network Code, the surplus under one account (ie OM or TU) has to be transferred to the other account if the receiving account has a deficit. Such transfers take place at the Weighted Average Cost of Gas (WACOG) of the disposing account which may not necessarily be the most economically advantageous method of procuring gas to make up the deficit.

Where, taking OM and TU together, there is a surplus in aggregate, Transco has an obligation under the Network Code to dispose of this surplus by Tender "as soon as reasonably practicable after the start of the Storage Year"[1]

This Modification Proposal seeks to:

- remove the obligation on Transco to transfer storage gas surpluses between the OM and TU accounts,

- permit disposal of a surplus in OM and/or TU gas prior to the commencement of the following Storage Year,

  but retain,

- Transco's ability to dispose of surpluses which exist on both storage accounts in a joint tender to the benefit of both the OM and TU services and the community as a whole.

Justification

The Modification Proposal is seeking to remove present rules which prevent the disposal of surpluses at prices which reflect prevailing prices in related gas markets.

In particular:

[1] Network Code Section K 3.3.2

It is expected that through an unfettered tender process, prices obtained in the disposal of OM/TU gas will reflect the price at which gas is sold on either the OCM or the established Over the Counter market. There will almost certainly be differences between the price of gas obtained through this process and the WACOG of each account.

Prices are usually lower in May than they are in April and this is reflected in the present data on the forwards market which shows a price differential between these months of 0.5 p per therm. This difference would be reflected in the potential additional revenue arising from an April disposal of OM/TU gas. If this revenue resulted from the disposal of OM gas then the Shipper community as a whole would benefit.

Disposal of surplus OM/TU gas can be achieved before May each year without affecting system supply security.

Consequence of not making the change

If there were a surplus in both accounts, disposal of OM gas would take place in early May at prices which are likely to be below that which could have been obtained in April. This potential additional revenue would not therefore have been realised along with the benefit which would have accrued to the shipper community.

If there were an OM account deficit and a TU account surplus, the transfer to OM from TU would probably be at a higher price than that obtainable from a tender process. The opposite effect would apply for a OM surplus and TU deficit. The underlying principle, however, is that it is better for each account manager to be able to procure or dispose of gas in accordance with a tender process which is under his/her control rather than be forced to use a price which does not reflect the general price of gas at the time the transfer takes place. This is especially true now that the cost of the OM and TU accounts are borne by Shippers and Transco respectively.

This Modification Proposal does not affect the arrangements applying where both accounts are in deficit.

Purpose of Proposal

To ensure that disposal of surplus gas from the OM and TU accounts takes place under a tender process designed to reflect the general value of such gas at the earliest time that the Managers of these two accounts are able to effect that disposal.

Proposer's Representative

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Date: