

## MODIFICATION REPORT

### Modification Reference Number 0099 Removal of Interruptible Withdrawal Limitation

#### 1. The Modification Proposal:

"The Network Code currently restricts the withdrawal of interruptible gas from storage, even when there is no restriction on the physical ability to do so. It is proposed that this artificial restriction be eliminated so that the only restrictions on the flow of interruptible gas are physical limitations."

#### 2. TransCo's opinion;

##### 2.1 Background:

The Rough interruptible storage service was introduced in 1994, and was designed as a low cost service to encourage off peak use of the Rough facility. The rule which this modification proposal seeks to have deleted from the Network Code states that no interruptible withdrawal nominations may be made for a gas flow day if the forecast total system demand exceeds 85% of the system peak day demand. This "85% rule" was introduced to ensure that potential users did not rely on the service on a peak day, and thus the provision of the interruptible service would not undermine the value of the Rough Firm service in years when Rough deliverability was not fully booked. (Physical restrictions on Rough deliverability are extremely unlikely given the reliability of the facility).

The pricing of the service reflected the fact that shippers had no rights to gas on the peak day so the deliverability charge was waived for the service.

The 1996/97 Storage Year is the third year in which the interruptible service has been offered on the basis of the "85% Rule", and this year the service has attracted a large number of Shipper Bookings.

##### 2.2 Operations in the Winter of 1996/97

Aggregate Deliverabilities for Rough for the current Storage Year are as follows:

<b>Firm</b>	<b>GWh/day</b>
Shippers	272.00
Top Up	12.60
Operating Margins	<u>98.70</u>
Total Firm	383.30
Physical Capability	<u>455.00</u>
"Spare Capacity"	71.40
<b>Interruptible (booked space /50)</b>	
Shippers	66.54
Balancing Margins	90.50
Top Up	<u>62.65</u>
Total	219.69

Assuming that a Top Up or balancing margins nomination is unlikely if shippers are nominating withdrawals from Rough, the effect of implementing the proposed modification in this winter would be to allow interruptible customers to treat their deliverability as firm unless a physical cause of interruption arises.

### 2.3 Allowing Stored Gas to Access the Market

The Modification proposal makes the point that under TransCo's current view of the supply demand match, there is a deliverability shortfall for the coming winter. This has arisen because the Top Up manager is not permitted to change his booking late in the summer even in the light of additional information which has come to his attention. It is acknowledged that it is vital that gas in store can be bought out on peak days through "unbooked" deliverability. However, TransCo does not believe that the proposed mechanism, which allows the system to rely on Storage's deliverability while failing to pay Storage for using it is fair or reasonable.

The Operational Guidelines could provide a mechanism to ensure that all storage deliverability is available to the market in a way that avoids cross subsidies between shippers, or from TransCo Storage. Balancing Margins deliverability is bid onto the flexibility mechanism (see Network Code Mod 101). In extreme conditions, when no further gas can be obtained from the flexibility mechanism or from interruption of firm users, Operating Margins deliverability is used. It is envisaged that the Operating Margins account could overrun its storage deliverability, if necessary, to ensure that all storage deliverability is available and recompense Storage for the deliverability on which the system was relying.

### 2.4 Future Years

If the modification is implemented then TransCo Storage will need to review prices (in particular the zero deliverability charge) to ensure that the price of the interruptible service reflects the greater probability that users will be able to get gas on the peak day under this modification.

One mechanism could be for TransCo Storage to leave the provision of deliverability to the secondary market in Storage capacity, another could be for Storage to offer interruptible deliverability at variable rates during the year - cheap or free in the summer and more expensive in the winter.

### 2.5 Costs of Top Up Storage to Shipping Community

The modification proposal suggests that use of Top Up will be reduced if the modification is implemented. However, the cost of Top Up to the shipping community as a whole is independent of the amount used: when Top Up is used, the cost of Top Up is recovered from out of balance shippers; if it is not used, it is recovered from all the shippers through the Top Up smear.

If this modification is implemented, Top Up costs are less likely to be recovered from shippers who made inadequate provision for peak demands, and the smear across all shippers is likely to be correspondingly higher. TransCo does not believe that Shippers who have made adequate provision for winter peaks under the Storage service rules as originally drafted (using either firm storage, firm beach gas or by contracting with interruptible end users) should face the same smear for Top Up as shippers who chose to rely on interruptible storage as described in the annual storage invitation.

## 3. Extent to which the modification would better facilitate the relevant objectives;

The implementation of the modification would create an apparent conflict with the relevant objectives:

In the current Storage Year shippers with the Firm service would pay three to four times as much as shippers with the Space Only service for effectively the same service. This means that firm customers are effectively cross subsidising interruptible customers.

The Top Up mechanism would be distorted, resulting in a cross subsidy, as shippers who had made adequate provision for peak days would subsidise those who chose to rely on a service which was interruptible under clearly defined conditions.

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

a) implications for the operation of System and any BG Storage Facility;

None Identified.

b) development and capital cost and operating cost implications

None Identified.

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 would not be recovering appropriate costs from Space Only customers, who would effectively have use of firm Rough Deliverability.

d) analysis of the consequences (if any) this proposal would have on price regulation;

A cross subsidy would exist from firm to interruptible service Users, and the price of the space only service would not reflect the costs.

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;

TransCo would have made available an effectively firm service and only recovered the revenue associated with an interruptible service. Revenue in future years could be affected by a loss of confidence in firm services.

6. The development implications and other implications for computer systems of TransCo and related computer systems of Relevant Shippers;

None Identified

7. The implications of implementing the modification for Relevant Shippers.

7.1 If the modification is implemented with immediate effect then Shippers who have booked the interruptible service for 1996/97 will benefit from a retrospective improvement in service levels. Conversely, Shippers who have booked the Firm Service will rightly be concerned that they have paid a premium for a service which is available to others who have paid less. Shippers who have booked the firm service may have made different purchasing decisions for 1996/97 if they had

been aware of an enhanced interruptible service.

7.2 Shippers who have prudently made provision for their peak requirements will effectively subsidise those who have not:

Costs of Top Up Storage are fixed, and are smeared across all shippers. When Top Up bids are taken, out of balance shippers pay high imbalance charges. Top Up income is used to offset Top Up costs, thus reducing the likely charge to shippers who have made firm provisions for their firm customers.

If this modification is implemented then shippers who have booked the interruptible service are less likely to be interrupted, Top Up is less likely to be used, and shippers who chose to rely on the interruptible service will pay less, while shippers who made adequate provision for peak will pay correspondingly more.

8. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

Owners of Peak/Seasonal Capacity which compete with Storage Services (including Producers and Interruptible End Users) will see the value of their investments eroded.

9. Consequences on the legislative and regulatory obligations and contractual relationships of TransCo and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

The proposed modification would create cross-subsidies between shippers. It also constitutes a significant retrospective redefinition of the terms of services after shippers have booked them.

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

10.1 In the short term the implementation of the modification will benefit interruptible service users at the expense of firm service users.

10.2 Ultimately TransCo Storage may revise prices and/or cease to offer the interruptible service in its current form.

10.3 The Top Up process is distorted, with Shippers who have acted prudently to obtain peak or seasonal gas subsidising those who have not.

10.4 The radical redefinition of the service after Shippers have booked it will undermine the confidence in the regime.

11. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report;

Seven representations have been received from Shippers. They are attached to this report and can be summarised as follows:

Two shippers expressed support for the modification.

Three shippers do not support the modification and were particularly concerned at the prospect of a change during the current Storage Year. Two felt that any change of this sort in mid-year should be followed by an opportunity for shippers to change bookings within year. One felt that any changes for the next or subsequent Storage Years should be discussed via the mechanism of the Network Code Review Procedures.

One shipper supported the principle of a commercial distinction between Rough Firm and Rough Interruptible services, but felt that the rules on interruption need to be revised to allow deliverability held by various TransCo accounts to be transferred to other users.

One Shipper opposed the introduction of the modification in the current storage year, but would support a change in 1997/98.

#### **TransCos Response:**

TransCo agrees with the concerns expressed by the majority of the respondents, and would support a proposal for a Review Group to be convened to discuss the issues arising from this modification proposal.

#### **12. The extent to which the implementation is required:-**

a) to enable TransCo to facilitate compliance with safety or other legislation;

This modification is not required to ensure that all storage deliverability is available in extreme conditions in the coming winter, and TransCo accounts (or those of other shippers with gas in store) could be allowed to overrun to allow stored gas to access the market.

b) having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement; furnished by TransCo under Standard Condition 3(1) of the Licence;

This modification is not required by the Licence.

#### **13. Programme of works required as a consequence of the implementation of the Modification Proposal;**

None

#### **14. Proposed implementation timetable;**

TransCo does not support implementation of this modification at any time, and is particularly concerned that implementation prior 1st May 1997 would constitute a significant change to the service and undermine the terms of the Annual Storage Invitation issued on 15th March 1996.

15. Recommendation for the implementation of the modification;

TransCo recommends that this modification is **NOT** implemented.

Signed for and on behalf of British Gas TransCo.

Signature: 

Date: 17-12-96

Name: PFG WHITTAKER

Position: COMMERCIAL MANAGER, STORAGE