Draft Modification Report
Modification Reference Number :0107
Corrections to Storage Balancing Agreement

This modification report is made pursuant to Rule 7.4 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Procedures Followed

9th December 1996	Modification proposal to Ofgas
20th December 1996	Ofgas reject as urgent
16th January 1997	Modifications Panel agree to Implement Direct
23rd of January 1997	Open forum meeting
24th January 1997	Draft report circulated
21st February 1997	Representations close out 5pm
24th February 1997	Final report to Ofgas

2. The Modification Proposal:

The Network Code defines the transportation arrangements for the Storage Operator, known in the Business Rules as the Storage Balancing Agreement (SBA). These arrangements allow the Storage Operator to allocate storage nominations whole, and provides him with limited operational flexibility, subject to maintaining a daily energy balance at the NBP.

The proposed changes will bring the Network Code into line with the agreed detailed Business Rules and with AT-LINK functionality. The changes are proposed to be retrospective to 1st September 1996 to reflect the original intention of the Business Rules.

As the Network Code is currently drafted, Storage is not liable for NTS entry charges. This is contrary to current practice in Storage, the programming of AT-LINK and requirements in respect of undue cross-subsidy between Transportation and Storage. The modification proposal makes the Storage Operator liable for NTS Entry Charges.

The modification proposal removes the additional energy balancing tolerance Shippers receive from Storage withdrawal nominations. The tolerance is not required as storage nominations are allocated according to nominations and so there is no margin for errors (this principle already applies to injection in the Code).

The modification proposal provides an energy balancing tolerance for the Storage Operator based on the physical flows at storage sites.

It exempts storage withdrawals from input scheduling charge calculations for Shippers, as Shippers are allocated their nomination whole. This is significant where the storage connection point is part of an aggregated system entry point, as is the case at Easington.

It creates input scheduling charges (applicable to the Storage Operator only) for storage withdrawals, based on the comparison of the aggregate nomination of all users at storage withdrawal points and the total measured flows at those points. In addition it is proposed that the same principles are applied to storage injections.

3. TransCo's opinion:

The Energy Balancing Detailed Business Rules for the SBA (Section 7.5, DB35 and DB28) were drafted into the Code relatively early, and were not adequately reassessed after subsequent changes to the energy balancing regime. As a result, a number of errors and inconsistencies have developed. The modification proposal will bring the Network Code legal drafting into line with the agreed detailed Business Rules, and with AT-LINK functionality. The changes are proposed to be retrospective to the introduction of phase 2 on 1st September 1996, when the effects became material.

The main aim of this proposal is to provide the Storage Operator with a reasonable imbalance tolerance for the storage injections and withdrawals made on behalf of Users. The Storage Operator acts as a "swing shipper", allocating Shippers' storage nominations whole and effectively taking the risk for the Shipper. Unfortunately, the current Network Code drafting does not provide the Storage Operator with a comparable imbalance tolerance to that given to Shippers for their inputs and outputs, see example in Appendix 1. Consequently, the Storage Operator faces exposure to imbalance charges at SMP, a considerable risk during the winter period. If the proposal is not implemented, the Storage Operator could only mitigate the risk by transferring significant quantities of gas between storage sites, thereby developing a reasonable tolerance. TransCo consider this to be unnecessary and inefficient, given the original, agreed rules.

If the proposal is not implemented significant changes to AT_LINK functionality and effort in recalculating Shipper imbalances will be required. The energy balancing impact of not implementing the modification proposal is analysed in Appendix 2 (attached) and shows that a negligible sum would be effectively transferred from Shippers within their imbalance tolerance to some of those Shippers who faced SMP cashout in the month. There will be no retrospective impact on Shippers imbalance cashouts if the modification is implemented.

For the above reasons TransCo supports the implementation of this modification proposal both retrospectively and prospectively.

4. Extent to which the modification would better facilitate the relevant objectives:

Under this modification proposal the Network Code will come into line with the agreed detailed Business Rules and with AT-Link functionality.

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

      a) implications for the operation of System and any BG Storage Facility:
      The modification proposal would allow the Storage Operator to continue to operate in the manner agreed in the detailed Business Rules and in line with current procedures. TransCo is not aware of any impact on the system.

b) development and capital cost and operating cost implications
There would be no additional capital or operating costs resulting from this modification proposal.

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:
There are no costs to be recovered.

d) analysis of the consequences (if any) this proposal would have on price
regulation:
Any increase/decrease in TransCo revenue resulting from corrections to Storage Balancing Agreement will be accounted for in price regulation in the normal way.

6. 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 believe that any changes to the level of contractual risk are negligible. The contractual risk to TransCo would be increased if the modification proposal is not implemented.

7. The development implications and other implications for computer systems of TransCo
    and related computer systems of Relevant Shippers:

If this modification proposal is not implemented then significant system changes and costs would be required to bring AT-LINK functionality into line with Network Code.

8. The implications of implementing the modification for Relevant Shippers,

Relevant Shippers would have a smaller imbalance tolerance, in those situations where they are making a storage withdrawal, compared to that implied by current Network Code drafting. The effect of this was negligible for November 1996, see analysis in Appendix 2. However, Shippers would be less likely to see imbalance charges incurred by the Storage Operator reflected in Storage prices.

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

TransCo is not aware of any impact on terminal operators, suppliers, producers and any Non-Network Code Party.

10. 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:

TransCo has not been informed of any consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

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

Advantages: The Network Code will be brought into line with the agreed detailed Business Rules and with AT-LINK functionality.

The Storage Operator will have an appropriate imbalance tolerance, which should prevent unreasonable and unnecessary daily imbalance cash out costs.

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

An open forum meeting was held on 23 January 1997. The meeting requested a simple worked example which is included in Appendix 1. Other issues raised at the meeting are addressed elsewhere in this report.

13. The extent to which the implementation is required to enable TransCo to facilitate compliance with safety or other legislation;

The modification is not required to facilitate compliance with safety or other legislation.

14. 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 to comply with the above clause.

15. Programme of works required as a consequence of the implementation of the Modification Proposal;

No programme of work is considered necessary.

16. Proposed implementation timetable;

The proposal will be implemented with effect from 1st September 1996.

17. Recommendation for the implementation of the modification;

TransCo recommend that this modification is implemented with effect from 1st September 1996, to avoid inefficient use of the system.

18. 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.

19. TransCo Proposal

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

20. Text provided pursuant to Rule 7.2.2 (c) (ii)

Section E: Daily, Imbalance and Reconciliation

Paragraph 1.7.2
> Add after "Users" in line 5 "(other than the Storage Operator)" and delete "for the purposes of Section F (but not Section B)" in line 6.

Section F: System Clearing, Balancing Charges and Neutrality

Paragraph 2.2.1(a)
> Delete "and" at the end of sub-paragraph (iii);
>
> Add after "System Entry Points" at sub-paragraph (iv) "(other than Storage Connection Points of BG Storage Facilities)";
>
> Insert new sub-paragraph (v) reading "in the case of the Storage Operator, the Entry Point Daily Quantity Delivered and the CSEP Daily Quantity Offtaken in respect of BG Storage Facilities; and".

Paragraph 2.2.2(i)
> Add after "Connected System Exit Points" in line 2 "(which shall include Storage Connection Points of BG Storage Facilities)"

Paragraphs 3.2.1, 3.3.1, 3.3.2
> In each case add at the beginning of the first line "Subject to Clause 3.4"

New Paragraph 3.4

> ### Storage Connection Points at BG Storage Facilities
>
> For the purposes of the application of this paragraph 3 in relation to Storage Connection Points of a BG Storage Facility:
>
> (a)   at paragraph 3.2.1(a)
>
> > (i)   references to System Entry Points shall, except as respects the Storage Operator, exclude such Storage Connection Points;
> >
> > (ii)   with reference to the Storage Operator, the Scheduling Input Nominated Quantity shall be the sum of the Nominated Quantities under Input Nominations (after taking into account Flexibility Nominations) of all Users;
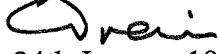
(b)   at paragraph 3.2.1(b):

    (i)   references to System Entry Points shall, except as respects the Storage Operator, exclude such Storage Connection Points;

    (ii)   with reference to the Storage Operator, the reference to the sum of the UDQIs shall be the Entry Point Daily Quantity Delivered;

(c)   for the purpose of 3.3.1(a)(ii), 3.3.2(a)(ii) and 3.3.2(d)(ii), such Connected System Exit Points shall be a relevant Connected System Exit Point with reference to the Storage Operator, but not otherwise;

(d)   for the purposes of 3.3.2(a)(ii), with reference to the Storage Operator, the reference to the Nominated Quantity shall be the sum of the Nominated Quantities under the Output Nominations (after taking account of any Flexibility Nomination) of all Users;

(e)   for the purposes of 3.3.2(b)(iii), with reference to the Storage Operator, references to UDQO shall be to the Connected System Exit Point Daily Quantity Output.

Section R: BG Storage Facilities

Paragraph 1.7.3
    Delete "(including Sections F2.2.1(a)(ii)" in line 3.

Signed for and on behalf of British Gas TransCo.

Signature:
Date: 24th January 1997
Name: Chris Train
Position: Manager, Service Development

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 British Gas TransCo that the above proposal be made as a modification to the network code.

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

Signature:
Date:
Name:
Position:

The network code is hereby modified, with effect from   , in accordance with the above proposal.

Signature:

Secretary Modification Panel
British Gas TransCo

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1.   Suspense Clause

1.1   Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

   provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2   Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.

APPENDIX 1: EXAMPLE OF EFFECT OF THE MODIFICATION

Assume, on a particular day, there is only one Storage Nomination from a Shipper, a withdrawal of 100 GWh from Rough. Suppose, when this nomination is delivered the measured flow is 105 GWh. Then the shipper is allocated 100 GWh and the Storage Operator is allocated 5 GWh.

Under the Code, as it is currently drafted, the shipper has 2 GWh added to his energy balancing tolerance. The Storage Operator's tolerance is 2% of 5 GWh, so 98% of the storage overdelivery is cashed out at SMP. Also, as the Storage Operator had no nomination he had no scheduling tolerance. Therefore scheduling charges are payable on his entire overdelivery.

Under the Code, as amended by the Modification, the Shipper's Energy Balancing tolerance would be unaffected by the Storage withdrawal. The Storage Operator's Energy Balancing Tolerance would be 2% of 100 kWh, so 2 GWh of his imbalance would be cashed out at SAP, and 3 GWh at SMP.

In addition the Storage Operator would require NTS entry capacity to cover the 5 GWh overdelivery. He would also face scheduling charges of 2% of SAP on 2 GWh at the overdelivery.

APPENDIX 2: MODIFICATION PROPOSAL 107
CORRECTIONS TO STORAGE BALANCING AGREEMENT

IMPACT ASSESSMENT FOR NOVEMBER 1996

1. Introduction

At the Modifications Panel meeting on 16th January 1996 it was agreed that implement direct procedures would be followed. In addition it was proposed to discuss the proposal at an Open Forum meeting where TransCo would provide details of the impact of the proposed modification on Shippers. This paper provides an assessment of the impact that would be applicable to November 1996, the most recent month to be closed out.

2. General Information for November 1996

26 Shippers using storage
23 with storage withdrawals

Total number of Shipper storage withdrawal days	259
Instances where relevant SMP = SAP	129
Of those remaining, cases where Shipper incurred no SMP cashout	104
Number of storage withdrawals with an impact on cashout charges/payments	26

3. Impact Assessed

Current Network Code drafting implies that Shippers should receive an allowance in their imbalance tolerance, comprising 2% of storage withdrawal nominations, even though this was not agreed during Network Code negotiations. The change in imbalance charges when this additional allowance is added to a Shippers imbalance tolerance has been calculated for November 1996.

The financial impact has been calculated as follows:

benefit to Shipper = 2% of storage withdrawal quantity * (relevant SMP - SAP)

4. Summary of Results

Shippers affected	12
Maximum number of occasions one Shipper is affected	4
Maximum benefit to individual Shipper over the month	£235
Aggregate benefit to relevant Shippers	£664

Therefore, if this modification was not implemented, some Shippers who had imbalance cashouts at SMP would receive a rebate from those who had balanced to within their tolerance. If implemented there would be no impact on Shippers' energy balancing invoices, as currently calculated.