

MODIFICATION PROPOSAL

Short Title: Removal of V-Factor analysis in Interrupting Rough Space Only Deliverability without full utilisation of Firm Deliverability

Date: 1 December 1997
Proposed Implementation: Immediately
Status: Urgent

JUSTIFICATION

The network code currently states that the Space Only service is automatically switched off if it is estimated by Transco that the demand for the following day is 85% of a peak day (known as the V-Factor). As you may recall the whole concept of 1 in 20 and 85% of peak day demand goes back to historical monopoly days. We strongly disagree that this number has any significance to the market today and its arbitrary nature only serves to encourage the market to oversubscribe firm services such as Hornsea and Rough. Furthermore, we believe that the nature of Interruptible should be defined as a service with secondary priority to Firm subscribers. Effectively, under today's rules Interruptible load can be taken off the market when Firm subscription is not even at maximum. This does not aid the market but causes undue and unnecessary market volatility and create a panic for deliverability.

We believe that what Transco, Ofgas and the Industry's goal should be to create a safe and reliable market place, priced relative to the full utilisation of all the assets in the market, as possible. Therefore, it is difficult to understand the value or the logic of arbitrarily interrupting deliverability when Firm deliverability is not at a maximum or there is excess capacity available. Furthermore, why are interruptible endusers not interrupted by this V-Factor but are interrupted for constraints or lack of supply, not arbitrary calculations? These mechanisms for managing a market appear to be terribly inconsistent.

As you know this winter nowhere near 100% of Rough Firm has been booked. Typically, there will be plenty of excess deliverability, but for sure when Firm deliverability is not at 100%. It harms the market place and creates artificial constraints to cut off supply that is actually aiding the market because of an arbitrary demand calculation, which has no relationship to offtake out of store.

Therefore, we request that the Industry (Ofgas) accept an urgent modification to the Code that throws out the rule of the 85% demand day and revises the Interruptible Service be secondary only to full utilisation of Firm subscription from Rough Deliverability prior to any disruption of Interruptible deliverability. Clearly stated, if a Firm subscriber wants to use its deliverability (1/30) then it will have first priority over the Interruptible subscribers and they will enjoy a pro rata share of what ever deliverability is remaining.

Transco will probably not like this concept and want to defer for various reasons. Probably, it will state that it is too late and that others should have been notified earlier in the year if the Firm and Interruptible service might change. Such a response would surely be to protect their Firm services. Some in the Industry will not want this modification because it may dilute their offshore or near monopoly influence to keep gas prices artificially high in an oversupplied market. However, interrupting supplies from a market arbitrarily is costing you, me, the Shipping community and End-Users unnecessary costs in both terms of gas and administrative terms. To those who feel this is a late change we recommend that Transco release more Interruptible service to those desiring it.

CONSEQUENCE OF NOT MAKING THIS CHANGE

The market will pay unnecessarily high prices on some days whereas if Interruptible volume were not arbitrarily interrupted then this gas would act as a cushion to meet the first order needs of incremental demand (peak). How can an industry conceptualise paying Top Up manager prices exceeding £20 per therm when Interruptible deliverability is available yet not allowed to access the market because of some historical belief system? The storage figures in Rough speak for themselves: there is a huge amount of excess space and deliverability available to the market, clearly indicating that the Firm service is overpriced. So why should the industry not have gas available because the Firm service is overpriced relative to market prices?

We request that the Industry look at the big picture and accept this modification because it makes economic and rational sense. Europe is looking; hoping the UK gas market (TPA) fails. It behoves us all to make all the capacity available onshore and offshore available and useful each and every gas day ensuring a healthy, robust and rational market place that functions according to real supply and demand.

AREA OF NETWORK CODE CONCERNED

Section R

NATURE OF PROPOSAL:

The V-Factor rationale would be completely thrown out of the equation. Firm Service would be given priority over any other Interruptible service as currently is the case. However, if excess deliverability is available which is not being actually utilised by the Firm subscribers either before the day or in day then the Network Code would allow for Interruptible holders to nominate and deliver such gas into the market subject to Firm Users priority rights.

PURPOSE OF PROPOSAL

To increase the utilisation of the assets in the market by making all deliverability available on each gas day to meet the demand of the market place in such a way that the rules do not skew prices to overpay or value the peak day by an artificial calculation. To decrease the potential of Transco to acquiring extreme and artificial Top Up or peak prices. To decrease the effect and offering of monopoly of storage services. To increase the utilisation factor of all peak available in the market.

IDENTITY OF PROPOSER'S REPRESENTATIVE

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