

Modification Report
Urgent Modification Reference Number 201
Removal of V- Factor analysis in Interrupting Rough Space Only Deliverability without
full utilisation of Firm Deliverability

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.2(a) Ofgas has agreed that this Modification Proposal should be treated as Urgent because the proposer is seeking immediate alleviation whilst peak demand is most likely to occur.

2. Procedures Followed:

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal;

| | |
|--------------------|--------------------------------------|
| 17th December 1997 | Ofgas agree proposal 201 as Urgent |
| 16th January 1998 | Close out of Shipper Representations |
| 30th January 1998 | Modification Report to Ofgas (Late) |
| 7th February 1998 | Ofgas decision expected |

3. The Modification Proposal:

NGC has raised an Urgent Modification to remove the V- Factor for the purpose of interruption of the Rough Space only service. They propose that Space only customers should only be interrupted when the deliverability is required by firm customers.

The purpose is to ensure that 100% of Rough deliverability is available when V is greater than 0.85.

4. Transco's Opinion:

Transco believes that changes to any regime should be undertaken when analysis of all available information has been undertaken. However to change the storage operating regime during the Storage Year undermines the commercial positions already taken by prudent shippers. In response to discussion at the Modifications Panel on 18th December, Transco has sought and obtained a dispensation to re-open storage bookings.

Transco view the opening of firm booking as a sensible change and with evidence of shippers discussing commercial interruptions with end customers, that this is a reasonable response to the high prices seen on 17th December 1997

In addition BG Storage are consulting on their services at Rough for their 1998 tender. This consultation proposes alternatives to using the V-Factor and it is Storage's intention that the V-factor should be removed. The consultation process will allow the industry to debate the issue and develop well thought through solutions

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

In the short term the Modifications might create a better and more efficient system, however by undermining current incentives the Modification may give rise to higher costs and increased inefficiency in the longer term.

6. The implications for Transco of implementing the Modification Proposal , including:

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

Additional Rough deliverability would be made available.

b) development and capital cost and operating cost implications:

Additional costs would occur, but additional revenues would also result, as such, the implications are minimal.

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:

Costs are included within current formula provisions.

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

Not significant.

7. 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 contractual risks to Transco arises from the implications of changing the commercial regime within the winter period. In addition, it undermines any

incentives in the future the community has to utilize Storage bookings early, as there is always the potential to change within year, the contractual obligations.

8. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

No UK-LINK implications.

9. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Relevant Shippers would have to change their operational policies with the use of Rough deliverability.

The contractual risk of the Shippers will change as a result of this Modification as it will effect their current commercial positions and so effects on individual Shippers will have to be investigated, as some will gain and some will lose.

10. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

This Modification changes the way in which shippers can choose to gain peak gas and so may reduce the requirement to procure it from other sources.

11. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

None

12. **Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:**

a) **Advantages**

Rough deliverability which currently is not used when V is greater than 0.85 would be made available to Space only customers thus providing greater deliverability to the system. However it should be noted that the deliverability is already available to the System via Top-Up.

b) Disadvantages

A change would be made without detailed analysis of the various causes of recent high prices and without adequate consideration of alternative remedies.

All shippers have made provision for their customers' winter consumption, and they would have their commercial positions changes by this modification after they have committed themselves to sources of supply.

13. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):

Five Shipper representations were received with regard to these Modifications. Of these, one expressed support for the modification and provided a methodology for the allocation of deliverability. The remaining four representations were against the modification. Their reservations concerned the timing, through to opposing it strongly, as it creates inappropriate commercial incentives mid winter. A letter from NGC is also attached.

The representations supported further investigation into the actions taken on 16th and 17th of December. Key areas that were raised from the representations are now summarized;

Discrimination - The vast majority of Shippers objected to the proposal because of the discrimination elements. Organizations have already take a commercial position with regards to their peak deliverability for winter 1997/98. Changing the regime in mid stream, would advantage and disadvantage organizations depending upon the positions that they took earlier.

14. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:

Implementation is not required for these purposes.

15. The extent to which the implementation is required 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:

Standard Condition 3(5) requires the licensee to establish a methodology for the determination of transportation prices, and 3(1) requires the licensee to furnish the Director with a statement of transportation arrangements and prices, and the methods and principles by which prices are determined. Neither clause is directly relevant.

16. **Programme of works required as a consequence of the implementation of the Modification Proposal:**

To be agreed if the modification is approved.

17. **Proposed implementation timetable:**

It is not proposed that this Modification is implemented.

18. **Recommendation for the implementation of the modification:**

Transco recommends that this proposal should not be implemented.

19. **Transco Proposal:**

This Modification Report contains Transco's proposal that this Modification is not implemented.

20. **Text Provided pursuant to Rule 9:**

Transco does not consider it appropriate to provide legal text as it does not believe the Modification should be made.

Signed for and on behalf of Transco,

Signature:

John Lockett
Manager, Network Code

Date:

Director General of Gas Supply Response:

I hereby accept Transco's recommendation contained in this report that this Modification should not be made to the Network Code.

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

Signature:

Kyran Hanks
Director of Transportation Regulation

Date: