

MODIFICATION PROPOSAL

Short Title: Auction Sale of Remaining Rough Firm Deliverability and Space

Date: 19 December 1997
Proposed Implementation: Immediately
Status: Urgent

JUSTIFICATION:

Currently, the System for selling Storage services does not encourage the sale and use of 100% of Rough and may indeed artificially value other Storage services and peak providers. The Industry has recently found itself in the situation of having a large amount of Interruptible service (deliverability) available but unusable for withdrawals during what is known as a V-Factor day. We note, ironically that Rough Space Only is available on the same V-Factor day, but for injections only. The Industry appears to be struggling at this late date to change the V-Factor analysis for fear of commercially advantaging some, to the detriment of others. The Industry also finds itself having UNDERSOLD, probably because of pricing, all the available peak capacity from Rough.

There are too few large shippers which have control of Super Peak as was witnessed on the 16th and 17th of this month creating a system of abuse and overly exploitative pricing. As predicted in our Dec. 1 letter this behavior is to be expected, in fact is supported by a monopolistic position, encouraged and exaggerated by artificial rules and constraints, such as V- Factor, high multipliers for Top Up and pricing policies by Storage.

Transco Storage offered during a urgent modification meeting on December 19th to reopen the offering of its Firm Service under the previous terms and conditions, effective immediately. We believe the concept to reopen Storage availability is a good idea and commend Storage for the idea. However, we believe rather than just opening it under the old terms, with floor pricing which clearly is not market responsive, the concept should be to insure that all of the facility is at full use and therefore their idea would require modifying.

CONSEQUENCE OF NOT MAKING THIS CHANGE

The market will and has paid unnecessarily high prices which are managed and perhaps manipulated by a very few, very large, peak day providers. Extreme and uncontrollable volatility and manipulative, perhaps monopolistic pricing, will continue to be seen in the market when 100% of the largest storage facility is underbooked and / or constrained by artificial parameters and primarily booked by one player, who not only has a monopoly position (currently) in the Domestic market but by UK definition a monopoly position on storage, peak day availability and gas supply. The Industry is currently debating whether the Top Up multiple should be 50 or 5 while far less than 100% of Rough Firm Deliverability and Space has been sold. That the industry would contemplate reducing the Top Up's multiple from one very high price to a lower, but still extremely high price is incredible to us, without first insuring all facilities were at full utilisation and competitive. In order to properly modify the System we must make certain that all the facilities which

are capable of producing are sold so as to insure that no one or two players have undue influence on the cost of products (storage) or the product itself (gas), in this case peak.

The Storage figures in Rough speak for themselves; there is a huge amount of excess Space and Deliverability unsold and therefore available to the market place. This fact alone indicates to us that Rough was overpriced in its original tender. The only companies' interested in acquiring this product on a large scale of course would be those with a monopoly position in the domestic market, not overly concerned about its cost base, and in fact may be awarded for acquiring premium priced products.

We strongly encourage the Industry accept the modification of requiring Storage to auction off immediately the remaining availability of its deliverability and space so as to create a level playing field of peak day providers so that the manipulative and monopolistic pricing behaviour as seen this week is placed in a much more competitive environment.

AREA OF NETWORK CODE CONCERNED

Section R

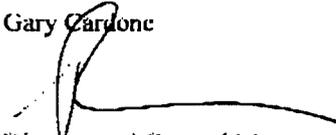
NATURE OF PROPOSAL:

Storage is required to Auction the remaining deliverability and space associated with Rough {potentially under 3 options, one a bundled service (space and deliverability) two for deliverability and three for space} with immediate effect and Urgency. Suggested time tables: by December 23rd this modification is agreed or not by the Industry. If agreed it would require Transco Storage by the 24th December to send out a Tender document (auction) to its shippers for the sale of 100% of the remaining Deliverability and Space associated with Rough, including the deliverability associated with the Space Only service. Bids would be required back to Transco by the close of business on the 29th. By the 30th of December the bids would be awarded and the use of space and deliverability would be available for use on January 1, 1998. No bid of zero or below would be contemplated as a valid bid in the process but the auction would be established at a market clearing price (ie., the last therm sold will dictate the price for the entire package).

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 or monopolistic pricing tactics. To decrease the potential of Transco to acquiring extreme and artificial Top Up or peak prices. To decrease the effect and offering of monopoly storage services. To increase the utilisation factor of all peak available in the market.

IDENTITY OF PROPOSER'S REPRESENTATIVE

PROPOSER Gary Cardone
 SIGNATURE 
 POSITION Director and General Manager Natural Gas
 COMPANY Natural Gas Clearinghouse

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