

Modification Report
URGENT Modification Reference Number 0207/0207a
Auction Unnecessary Top-Up Gas

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 to allow the Top-Up Manager to sell off surplus Top-Up gas so as to take advantage of winter prices. Any method of selling the gas for winter use is likely to achieve a better price than waiting for the summer.

2. Procedures Followed:

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

16 January 1998	Circulate Modification Proposal inviting representation
23 January 1998	Representations close at noon
27 January 1998	Report to Ofgas
30 January 1998	Ofgas decision

3. The Modification Proposal:

NGC have raised Urgent Modification Proposal 0207 to allow Transco to auction Top Up gas above the monitor level, as well as associated deliverability and space. Transco oppose this proposal and have raised the following alternative, 0207a.

The Top-Up Manager will assess total storage stocks against the storage monitor and determine if there is surplus storage held in the Top-Up account. This assessment will take into account the need to maintain sufficient stocks to ensure that 1 in 20 peak day deliverability requirements can be met as well as 1 in 50 severe duration.

Having determined the surplus the Top-Up Manager will dispose of the gas by the following means:

- a) sell surplus gas delivered at the NBP via tender
- b) sell surplus gas in store via tender
- c) sell gas via both of a) and b)

The assessments will be carried out at the end of January, February and March 1998 and three separate tenders will be performed.

Such an approach would be likely to result in the Top-Up Manager achieving a better price for the gas than waiting for a Q2 98 disposal.

Transco are submitting a single report which applies to both proposal because of similarities between them.

4. Transco's opinion:

Transco accepts that the Top-Up Manager should be in a position to sell off surplus Top-Up gas so as to take advantage of winter prices. This should lead to reduced Top-Up costs for the community compared to selling the gas in the summer.

Transco accepts that changing the rules in relation to tendering surplus Top Up gas part way through the winter is not generally desirable and may have a detrimental effect on the gas market and BG Storage service offerings. However, the impact will be significantly less under 207a since it is proposed to offer gas only and not space and deliverability as in 207. The latter would be to the detriment of those shippers who originally made adequate provision for storage services and severely undermine confidence in Network Code rules.

Transco believes that the benefit to the community of reduced neutrality charges resulting from the sale of surplus Top Up gas outweigh these arguments in this instance. Transco are proposing this tender process as a permanent change, thereby clarifying the position for the next storage year, although it is appreciated that this may change following Ofgas' Top Up consultation.

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

The modification is likely to reduce the net cost of the Top-Up Manager's activities, reducing costs to shippers.

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 gas-in-store may be withdrawn from storage facilities and delivered to the NBP. Since this gas is surplus to the 1-in-20 and 1-in-50 criteria, security of the system will not be compromised.

b) development and capital cost and operating cost implications:

None

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 continue to recover its costs (excluding administration) through the Top-Up Neutrality mechanism.

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

None

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:**

None

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

None

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

The modification is likely to reduce the Top-Up Neutrality charges payable by shippers.

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

None

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:**

The proposal may reduce significantly the cost to shippers of Top-Up Neutrality.

The proposal might favour those shippers who had not made proper provision of winter supplies and undermine incentives to do so.

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

Six representations were received of which 3 were broadly supportive of both 207 and 207a, a fourth was broadly supportive of 207a but not 207 (a seventh representation was received after the deadline). Of those opposed to the modification proposals, the objections were strongest in relation to 207, mainly on the basis of changing rules on which commercial decisions had been made, part way through the winter.

In response to NGC's comments Transco would state that although Rough has recently been close to maximum deliverability, insufficient capacity has been booked by shippers to meet 1 in 50 demand levels and hence the need for the current levels of Top Up. 207a will not result

in greater savings to the shipping community than 207, because deliverability and space do not form part of the proposal. It may be possible to issue the invitation to tender prior to the 30 January if an early decision is forthcoming.

BGT suggest that tenders in March and April may not be worthwhile. Transco's view is that if there is a significant quantity of gas above the monitor level, it should be offered to reduce neutrality charges.

Transco agree with the sentiments raised in the BG Storage representation in relation to proposal 207. However, Transco is of the view that the Top Up Manager should aim to reduce neutrality costs for the community, irrespective of the magnitude of the saving ultimately achieved. Proposal 207a should achieve this with minimal complexity. Consideration will be given, when assessing the availability of gas for disposal, to the impact on 1 in 20 deliverability and allowance made for potential shipper withdrawals.

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

Transco is not aware of any such requirement.

15. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:

None

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

If either Modification is approved a tender would need to be prepared.

17. Proposed implementation timetable (inc timetable for any necessary information systems changes):

Modification 0207a will be implemented directly should Ofgas consent that the modification be made. Acceptance of proposal 0207a by Ofgas by 30 January 1998 will enable the following timetable for the disposal of the current surplus:

30 January	Issue Invitation To Tender
6 February	ITT closes
9 February	Transco advises outcome
11 February	Deliveries commence.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends that Modification 0207a is implemented.

19. 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.

20. Transco's Proposal:

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

21. Text provided pursuant to Rule 9:

SECTION P

- 2.9.5 (a) the Top-Up Manager may determine at the end of any month from November to April in any Storage Year, the difference between the Aggregate Stored Gas and the Remaining Stored Gas Requirement for that Storage Year;
- (b) in the event that the Aggregate Stored Gas exceeds the Remaining Stored Gas Requirement following any redetermination under paragraph 2.9.5(a), the Top-Up Manager may dispose of any or all of the Top-Up Manager's surplus gas-in-storage following such redetermination ("Winter Period Residual Surplus Gas") in accordance with paragraph 2.10

2.10 Disposal of ~~Further~~ Residual Surplus Gas

- 2.10.1 Transco on behalf of the Top-Up-Manager will following the redetermination under paragraph 2.9.1(a) or may, following redetermination under paragraph 2.9.5 seek to make Residual Gas Transfers in respect of Further Residual Surplus Gas or Winter Period Residual Surplus Gas in each Relevant Facility as soon as reasonably practicable in accordance with the further provision of this paragraph 2.10.
- 2.10.2 Subject to the provisions of this paragraph, the provisions of Section K4.4.2(a) to (h) (inclusive), 4.4.4 and 4.4.5 apply in respect of the disposal of any Further Residual Surplus Gas or Winter Period Residual Surplus Gas and references therein to any Further Residual Surplus Gas or Winter Period Residual Stored Gas (as appropriate).

98/29/01/06

Signed for and on behalf of Transco.

Signature:

John Lockett
Manager, Network Code

Date:

28.1.98

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 Transco that the above proposal (as contained in Modification Report Reference 0207a, version 1.0 dated 27/1/98) be made as a modification to the Network Code.

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

Signature:

Kyran P. Hanks

Kyran Hanks
Director of Transportation Regulation

Date:

28/1/98

The Network Code is hereby modified, with effect from
the proposal as set out in this Modification Report, version 1.0.

, in accordance with

Signature:

Process Manager - Network Code
Transco

Date:

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.