

98/03/23/02

URGENT MODIFICATION PROPOSAL

Revision of Rough Services

Date: 23 March 1998

Proposed Implementation Date: Immediately

Urgency: The imminent start of the 1998/99 Storage year dictates that this proposal be considered Urgent.

Justification:

Enron has made public its concerns over the operation of the flexibility mechanism and the impact on the market through :

- the risk of extreme prices
- unmanageable price volatility
- excessive smearing charges.

Storage has hitherto exacerbated these problems in the following ways :

- Top-up has kept available gas and deliverability off the market at peak times.
- The V factor has prevented storage deliverability being accessed at peak times.
- The fixed price tender mechanism sold only 44% of available deliverability into the market for 1997/98.
- The ability of firm storage capacity holders (and BG Storage themselves in respect of uncommitted capacity) to keep unused deliverability off the market has supported high prices.

The Network Code further prevents economic access to storage in other ways :

- The charging mechanism discourages shippers from booking unsold capacity after the start of the storage year.
- The system entry capacity booking regime inhibits access to interruptible storage in the absence of a liquid secondary market in capacity, by requiring a full year of capacity to be booked, with 7 business days notice. This represents a large supplementary charge for firm pipeline capacity which is not commensurate with either the value of interruptible storage or the nature of its usage.
- The absence of penalties on BG Storage for failure to deliver leaves all risk with shippers even though shippers now prefer to trade almost exclusively at the NBP.

With the arguable exception of the fixed price tender, the above issues can be addressed directly through modification to the Network Code. This proposal does not address Transco's alleged ability to determine unilaterally the price(s) to be charged in a fixed price tender without Ofgas approval.

In its *Review of Top-up Gas* (February 1998), Ofgas express the view that Top-up would not have been required in 1997/98 but for the 'V factor' which prevents Space Only users at Rough withdrawing gas on peak days, and that it expects the V factor to be removed from the Network Code before 1998/99's storage year. The document

goes on to state Ofgas' belief that there should be no requirement for Top-up in subsequent winters.

The Network Code currently contains terms which insulate BG Storage from the commercial impact of failure to allocate according to nominations. It also explicitly allows BG Storage to claim *Force Majeure*. Thus shippers bear the full risk of imbalance charges (at extreme System Marginal Prices) for a failure by BG Storage. Again, through the way in which the Network Code was signed, Transco used its monopoly position to dictate the terms in which storage services were offered.

This no longer reflects the conditions in which gas is competitively traded. Gas is now traded at the NBP, allowing producers rather than shippers to manage upstream risk. In the same way, liability should now be with the Storage Operator as if the transaction were conducted at the NBP. This is achievable directly through the provisions of section R1.3.3 by which nominated quantities (except interruptible nominations) are allocated whole, without qualification by terms for *Force Majeure* and Transco failure.

Other restrictions on late booking, and penalties currently deter booking after the start of the storage year, and should be removed.

Consequence of not making the change:

Rough deliverability will continue to be withheld from the market when it is most required. At peak times the risk of extreme pricing on the flexibility mechanism will continue.

Area of Network Code concerned: Sections B2.5 (flexibility overrun charges) & B2.6 (overrun charges) ; P (Top-up), R6.4.7-R6.4.8 (V factor), R6 (Withdrawals) especially R6.4 (Withdrawals under Interruptible Storage Capacity), R7.1 (Storage Overrun Charges) ; R1.3.3 & R6.7 (Reduced penalties for Transco failure) ; R1.6 (Force Majeure)

Nature of Proposal:

Top-up storage will be removed from the Network Code.

The 'V factor' limitations on the use of Interruptible Withdrawals will be removed from the Network Code.

The limitation on Interruptible Storage Users that their nomination may not exceed 10% of their Available Storage Space will be removed. Unutilised delivery capacity will be accessed at any time on an interruptible basis by:

- (i) Firm holders, who wish to withdraw in excess of their firm deliverability entitlement and
- (ii) Space-only holders

For firm holders, any nomination in excess of firm deliverability held will be interruptible and may be reduced along with Withdrawals under

Interruptible Storage Capacity as described in sections R6.4.3-R6.4.6. The nomination quantities in excess of the firm entitlement will be treated as Interruptible Storage Nomination Quantities (notwithstanding that they are made against Firm Storage Capacity) and the User as an Interruptible Storage User for the purposes of section R6.4.6.

In the event of insufficient capacity to meet all interruptible nominations, allocations will be prorated on the basis of nomination or space whichever is the lesser. A User cannot therefore 'game' his allocation by nominating fictitiously high values.

Storage overrun charges, NTS Entry overrun charges and Flexibility overrun charges will be similarly amended to remove unduly onerous penalties on flowing interruptible gas out of storage.

- Storage overrun charges on withdrawal rates (R7.1.1(b)(i) and R7.1.1(d)) will be deleted.
- (NTS Entry) Overrun charges (B2.6.4) : a separate category for overruns in respect of flows out of storage on an interruptible basis should be established with a relevant multiplier of 5/365 (applied to the annual charge).
- Flexibility Overrun Charges (B2.5.3) : any overrun in respect of flows out of storage on an interruptible basis should have a relevant multiplier of 5 (applied to the daily rate) in the period December to March.

The protection currently received by Transco for failure to meet a properly nominated withdrawal should be removed. R6.7 will be deleted and the reference struck from R1.3.3. R1.6 (Force Majeure) should correspondingly be removed.

Penalties to prevent or deter booking of storage capacity after the start of the storage year should be removed, including R3.8.2 (which prevents interruptible capacity being booked after 30 November), R3.8.8 which dictates that higher charges are paid for late booking, R3.8.9(ii) which defines the booking penalty.

Purpose of Proposal / Achievement of Relevant Objectives:

The proposed modification will facilitate the economic and efficient operation of the pipeline system by enhancing system utilisation, by reducing the costs of balancing and consequently the balancing neutrality charges borne by shippers which arise from extreme prices in the flexibility mechanism.

Competition in shipping and supply will also be enhanced by providing greater access to peak gas. As a result, consumers will benefit from lower gas prices.

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Company : Enron Europe Limited

Signed **Date:** 23 March 1998

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