

Mod 270

MODIFICATION PROPOSAL

Short title: Bacton Interconnector Entry Point and the CSEP
Date: 17th September 1998
Proposed Implementation 1st October 1998
Status: URGENT

JUSTIFICATION

Bacton Interconnector (BIC) entry/exit point is governed by the CSEP Ancillary agreement (UK - Continent Interconnector). All NTS shippers receiving gas from the Interconnector are required to be signatories to the CSEP and must also be a party to the Bacton Agency arrangements.

The introduction of terminal level trading was believed to enable all of the gas at Bacton including the BIC be transferred into a 'pool' after the initial validation, completed by the CVA. Gas would be traded freely in the pool and the CVA would then re-allocate the gas to the shippers on AT Link in proportion to the quantities initially transferred.. This would mean that all shippers with any net allocation in the pool would be allocated an amount at the BIC entry point on AT Link. If any of these shippers are not a party to the CSEP, then currently, they may not be entitled to this gas.

The traded pool process was intended to increase liquidity in the Bacton beach market in recognition of its importance as a source of within day gas, but the current regime does not properly provide for such a traded pool.

The CSEP ancillary agreement provides for the rules governing the exit point and initially did not include the entry point. It was therefore not envisaged that there would be any implications regarding the terminal level trading concept. The rules contained in the CSEP agreement pertain to the initial allocation and within day operation of the shippers rather than any additional trading activity.

Consequence of not making this change

Under the current allocation regime within the CVA, the new transfer 'pool' could mean that gas is allocated to shippers who are not a party to the CSEP and are currently not entitled to the gas. This creates a legal issue between shippers as most beach contracts currently state 'Bacton' as the delivery point which, in the past has assumed any of the three current sub terminals. With the introduction of the 'pool', gas is still delivered at Bacton, but the proportion allocated at BIC to a non-signatory will not be received. Albeit there would have been no mention of any CSEP at the time the contract was signed or indeed at the time that terminal level trading

arrangements were formulated and embodied into the third amendment to the CVSA. Such shippers cannot then take title to their gas.

Even shippers that are a party to the CSEP can be affected, as it is not only gas that shippers receive, but also that it sells which needs to be taken into consideration. If a shipper is sold gas from the pool, and then subsequently sells it onto another shipper etc., it could be the last shipper in the chain that is not a party to the CSEP. That final shipper will either not receive all of the gas or the trades would have to be 'unravelling' by the CVA, again as they cannot take title. The gas may then be treated as unclaimed gas, although there are currently no provisions for this. A better method to deal with this gas would be as set in this proposal.

Alternatively, the shippers will have to keep all trades at sub terminal level, to ensure that title can be given to all gas at Bacton. This defeats the entire purpose of the terminal level trading process, which was to both increase the liquidity at Bacton and to eliminate any CVA close-out problems due to sub terminal switching.

Area of the Network Code Concerned

Section J

Nature of Proposal

The proposal is that Transco's interpretation of the required signatories to the CSEP be redefined so that only those shippers that are receiving gas **directly** from the Interconnector need be a party to it. Transco could request a list of those shippers claiming the initial quantities from the BIC from either the Bacton Agent or the CVA. Gas once transferred into the pool would be classed as Bacton gas and the allocation on AT Link would be merely the result of a paper exercise.

In order for this proposal to work, the rules detailed in the CSEP ancillary agreement, regarding the concept of deemed flows at the Interconnector, will need to be incorporated into the Network Code.

Purpose of Proposal

- To increase liquidity at Bacton.
- To prevent any legal problems between shippers arising from gas being delivered but not received.
- To ensure that the requirements of the CSEP are addressed as they were intended, rather than penalising all shippers that wish to trade at Bacton.

- Mod 232 regarding the input of zeros at all sub terminals, having been implemented, would remain valid and a further proposal would not be required.
- To facilitate on-the-day trading in the coming winter and, in part, to fulfil some of the objectives of the OCM, which shall now not be available until the winter of 1999/2000, at the earliest.

Proposer : Hayley Onyett
Position: Supply and Trading Operator
Company: BP Gas Marketing Ltd

Signed



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