

Modification Report
URGENT Modification Reference Number 390

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent so that changes can be implemented for the storage year commencing 1 May 2000.

2. Procedures Followed:

Transco agreed with Ofgem the following procedures for this Proposal:

Issued for consultation Thursday 2 March
Close out for representations Thursday 9 March
Report to Ofgem Monday 13 March

Although this report was substantially complete on 13 March, additional time was required to modify the legal text in response to detailed comments received.

3. The Modification Proposal:

Transco has proposed:

1. For year 2000 only:
 - (i) Annual Storage Invitation to be issued by 14 April (rather than 1 March), and the requirement for it to be open for 30 days waived. (In practice, Transco LNG intends to issue the invitation by the end of March, and allow 30 days for bids to be registered, but the proposed legal drafting provides a contingency in case this is not achieved.);
 - (ii) Consequent delays to notifications of injection programmes and start of Injection Period delayed from 1 to 8 May;
2. Price tender to be pay as bid (instead of pay clearing price);
3. Derogation from Section B1.8.2 of the Network Code to allow the revised transportation credits proposed in PC52, if not vetoed, to be introduced as soon as practicable rather than after two months notice;
4. Storage capacity to be allocated first to Transco for Operating Margins and SIU's, then to other Users; Transco to pay the fixed prices specified in Special Condition 9D of BG Transco's PGT licence (i.e. the prices paid by all Users in previous years). Non-Transco users of the Glenmavis tanker service to have the option of buying Space only at the previous fixed price, rather than bundled Space and Deliverability in the price tender.
5. Transco LNG to make an interruptible space charge on a daily basis for uncovered gas-in-storage brought forward from the previous year, and notify the charge rate for each month by 20th day of the previous month. Transco LNG intends the charge rate to be zero for May, June and July 2000.

Transco has also consulted on proposed changes to Transportation Credits For Constrained LNG (PC52) and on LNG Reserve Prices, and will require the Director

General's written consent if, as proposed, it wishes to deviate from the fixed LNG prices specified in Special Condition 9D of BG Transco's PGT Licence. All these matters constitute an interim solution intended to improve the efficiency of LNG utilisation. In the longer term, Transco believes the costs of LNG should be met from allowed revenues under its price control formula, with LNG assets being accounted for when calculating the Regulated Asset Base (RAB).

4. Transco's opinion:

Transco believes this proposal should be implemented to ensure it can obtain its Operating Margins and SIU requirements; to enable LNG capacity to be sold in a pay-your-bid auction; and to allow revised transportation credits that better reflect the value of the transportation capacity provided through Constrained LNG to be introduced at short notice.

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

The proposed modification is part of a package of changes intended to encourage efficient and economic operation of Transco's system by facilitating efficient utilisation of LNG facilities.

The priority to be given to Operating Margins and SIU capacity requirements more efficiently discharges Transco's duties to meet pipeline system security standards (Standard Condition 13). This is because, at present, if LNG capacity is sold by price tender, Transco must bid for Operating Margins requirements and, if unsuccessful, must exercise its pre-emption right and buy at the high-weighted average price (which it may be reluctant to do), or compromise on its requirements. This procedure also unnecessarily complicates the tender process. It is appropriate instead for Transco to buy its Operating Margins requirements at the fixed prices set out in Special Condition 9D, because this was the basis of the allowance made when setting the price control formula.

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

a) implications for the operation of the System:

The securing of Operating Margins requirements and higher LNG bookings would enhance the security of the System, particularly if bookings at Constrained LNG Facilities exceed the minimum levels required for transmission support. The higher availability of LNG may reduce balancing costs.

b) development and capital cost and operating cost implications:

Administrative and IT costs may rise, due to a higher number of LNG customers.

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 LNG will bear the additional costs during the present price control period.

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

If this and related proposals are approved, it is anticipated that Transco will seek consent to charge different prices for LNG capacity from those set out in Special Condition 9D.

This proposal also allows the introduction of revised transportation credits pursuant to PC52 at less than the standard two months notice; however the concept behind PC52 was put forward in Ofgem's November 1999 proposals document and by Transco in a presentation to shippers on its proposals for Storage Year 2000/01.

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 risk of Transco not obtaining its Operating Margins requirements would be removed.

Transco LNG would be exposed to price uncertainty.

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

There are no immediate implications. However the separation of BG Storage Limited (BGS�) and Transco LNG in December 1999 has meant that Transco LNG will not be able to use BGS�'s customer-facing computer system (STORIT), and the expected increase in LNG customer numbers and utilisation would make the need for a similar system for LNG more urgent.

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

The proposal is part of a package of changes that could make LNG capacity available to Users at lower effective prices.

10. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators suppliers, producers and, any Non-Network Code Party:**

Implementation of this package of changes could intensify competition between Storage Operators.

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

Transco will be able to meet its obligation to meet the gas security standard (Special Condition 13) more easily.

Implementation of the package of changes should enable Users to meet their security of supply obligations to domestic consumers at lower cost.

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

Advantages:

- Certainty in Transco's procurement of Operating Margins requirements;
- Part of a package intended to facilitate efficient utilisation of LNG capacity;
- Provides more appropriate rewards for the support Constrained LNG provides to the pipeline system.

Disadvantages:

- Implementation of the package would result in transportation charges being slightly higher than otherwise.

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

Two representations were received.

BGT supports the proposal, with two caveats:

- While supporting the principle of carry-over charges in respect of uncovered gas-in-storage at the end of the previous storage year, and Transco LNG's intention that these be zero for May, June and July 2000, the charge rates should be declared at the time of the Annual Storage Invitation, and not on 20th of the preceding month;
- Clarity was sought on the allocation rules at Glenmavis between Operating Margins, the fixed price tanker service, and the standard service. Also the respondent asked if there is any limit (other than site capacity) on the capacity available for the tanker service and, if space remains after the auction of standard service, can further tanker service be purchased and at what price?

BGT objects to deletion of permanently suspended rules on Preceding Year Users' pre-emption rights, and makes a number of other comments on the proposed legal text.

Scottish and Southern Energy conceded the need for a compressed timescale for the Annual Storage Invitation, but did not comment on other aspects of the proposal. They also expressed more general concerns on timescales and difficulties created by other changes taking place at the same time, the proposal being put forward before related consultations had been completed (apparently assuming their outcomes), and the lack of progress in introducing competition to system support services.

Transco Response:

Transco believes that the late setting of carry-over charge rates would be a useful tool in managing carried over gas-in-storage, but is prepared to meet the shipper concern in this area and publish these charges at the time of the Annual Storage Invitation.

Transco does not intend to limit the space at Glenmavis sold at fixed price for tanker service prior to the auction of standard service. The reason for offering this space at fixed price is to avoid any discrimination that might otherwise exist between Transco's purchase for SIU's, and any other users of the tanker service. Space will be allocated first to the tanker service (scaled back in case of over-subscription). The

remaining space, and one fifth this amount of deliverability, will then be allocated as standard service, highest bid price first. Subsequently, any remaining space will only be available as standard service at the late booking price.

In the proposed legal text, Transco had taken the opportunity to clarify and shorten Section Z3 by eliminating rules on pre-emption by Preceding Year Users that are anyway suspended by the Transition Document, and hence this does not alter the effect of the text. If such pre-emption rights are reintroduced, the necessary text can be added at that stage, and no change is required to the legal text proposed here.

Transco is grateful for other detailed comments on the legal text, and has taken these into account in the proposed text below.

On the wider concerns expressed by Scottish and Southern Energy, Transco acknowledges that other changes taking place at the same time create difficulties for shippers, but nevertheless believes this modification is necessary, for the reasons set out in its proposal. Transco has progressed this proposal in parallel with other consultations so that Ofgem can consider all issues affecting LNG services for 2000/01 together, and Transco would not expect this proposal to be approved unless the other issues are resolved.

Respondents also commented on the lack of progress towards competition in the provision of system support services. Transco believes these issues are best considered in the context of exit issues which are expected to be considered as part of the ongoing RGTA process

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

Not so required.

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:

Implementation is desirable to introduce the revised transportation credits proposed in PC52 at the start of Storage Year 2000/01.

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

Transco LNG would need to revise its Annual Storage Invitation and capacity allocation procedures.

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

Transco LNG would ideally issue its Annual Storage Invitation by the end of March, and the proposal must be implemented first.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends implementation of this proposal.

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:

Section Z

Amend 2.1.3(b) to read:

(b) "Storage Deliverability" is capacity which entitles the User (provided that it has gas in store) to withdraw gas from a Transco LNG facility to the System.

Amend 2.1.6 to read:

2.1.6 The "**Maximum Storage Capacity**" in respect of a Transco LNG Facility at any time is:

(a)Storage Space ("**Maximum Storage Space**") determined as the Total Storage Space less the amount of Storage Space at the time subject to Long Term Storage Arrangements in accordance with paragraph 2.8, Tanker Filling Arrangements in accordance with paragraph 2.9 and Operating Margins Requirements; and/or

(b)Storage Deliverability ("**Maximum Storage Deliverability**") determined as the Total Storage Deliverability less the amount of Storage Deliverability at the time subject to Long Term Storage Arrangements in accordance with paragraph 2.8 and Operating Margins Requirements,

as specified for a Storage Year in the Annual Storage Invitation (in accordance with paragraph 3.1).

Amend 2.9.2 to read:

2.9.2 Under a Tanker Filling Arrangement, the requirement as to Storage Duration of paragraph 2.3 will not apply in respect of the User's Storage Space but the User will pay charges (in accordance with the Annual Storage Invitation) for the entitlement to withdraw and/or withdrawing gas under such arrangement.

Delete "and" from paragraph 3.1.3(i), renumber existing paragraph 3.1.3(j) as 3.1.3(k) and add a new paragraph 3.1.3(j):

(j)for each of the months May to September inclusive, the amount of the charge (the “**Carry-over Charge**”) (in kWh/Day) that will apply to such of the User’s Permitted Uncovered Amount as is left in a Transco LNG Storage Facility; and

Delete paragraph 3.2.1(f) and renumber (g) as (f)

Rename paragraph 3.3 “ Capacity Allocation - Operating Margins and Tanker Filling Arrangements “

Delete paragraph 3.3 and replace with:

3.3 In any Storage Year, Transco and Users shall pay the prices set out in Transco’s Public Gas Transporter’s Licence for the Supply of LNG Storage Services for Operating Margins Purposes and for Tanker Filling Arrangements entered into prior to the Invitation Close Date for the Storage Year in question.

Amend 3.4.2 to read:

3.4.2 If applications are made pursuant to the Annual Storage Invitation for Storage Space or Storage Deliverability at a Transco LNG Storage Facility in aggregate greater than the relevant Maximum Storage Capacity Transco LNG Storage will allocate Storage Space or Storage Deliverability (as to each of which this paragraph 3.4 shall apply separately) between Users whose applications were not rejected in accordance with the further provisions of this paragraph 3.4.

Delete 3.4.3 and 3.4.4

Amend 3.5.2 as follows:

3.5.2 Each User (excluding Transco for Operating Margins Purposes and Users and/or Transco in respect of Tanker Filling Arrangements for the forthcoming Storage Year entered into prior to the Invitation Close Date) who applies for Storage Capacity shall tender a price or prices (in accordance with paragraph 3.2.1(d)), and agrees by making such application to pay by way of Storage Capacity Charges the prices so tendered in respect of the amounts of Storage Capacity allocated in accordance with this paragraph 3.5.

Amend 3.5.5 as follows:

3.5.5 Transco LNG Storage will allocate Storage Capacity by:

Delete paragraphs 3.5.6 to 3.5.11 inclusive, renumber 3.5.12 as 3.5.6.

Add new paragraph 3.6.6:

3.6.6 Carry-over Charges will be invoiced and are payable monthly in accordance with paragraph 8.

Transition Document Part II

Delete paragraphs 8.17.1 and 8.17.2 and replace with:

8.17.1 Z3.1.1 For the Storage Year commencing 1st May 2000 Transco LNG Storage will, not later than 14th April, 2000, invite (for the purposes of Section Z3.1.1 applications for Storage Capacity in each Transco LNG facility, and the requirement of Section Z3.1.3(a) that the Invitation Close Date shall not be less than 30 Days after the date of the invitation shall not apply.

8.17.2 Z5.2.1 For each Transco LNG Facility, for the Storage Year commencing 1st May, 2000, the “**Injection Period**” is the period from 8th May 2000 to 31st October 2000, excluding any Days which are not Programmed Injection Days as extended in accordance with paragraph 5.2.2.

Add new paragraph 8.17.5:

8.17.5 Z5.4.2 For the Storage Year commencing 1st May 2000, each User may, not later than 12:00 hours on 2nd May, 2000 notify to Transco LNG Storage a requested change to the Provisional Injection Programme in respect of any Transco LNG Facility for the period 8th to 31st May 2000.

Add new paragraph 8.17.6:

8.17.6 Z5.4.8 Not later than 12:00 hours on 3rd May, 2000 Transco LNG Storage will provide to each User the Confirmed Injection Programme, specifying the Confirmed Injection Quantity for each Programmed Injection Day of the period 8th to 31st May 2000 for each Transco LNG Facility.

Add new paragraph 8.17.7:

8.17.7 B1.8 In respect of Pricing Consultation 52 the requirement in Section B1.8.2 that the notice to be given by Transco pursuant to the Transco Licence in relation thereto be given not less than 2 months prior to the proposed date of implementation shall not apply and Transco shall instead give such notice as far in advance of the date on which the proposals contained therein are to be implemented as is reasonably practicable.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

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 390, version 1.0 dated 20/03/00) be made as a modification to the Network Code.

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

Signature:

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

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.