TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0429

"Section P Rewrite"
Version 3.0

Date: 19/09/2000

Proposed Implementation Date: 01/11/2000

Urgency: Non-Urgent

Justification

This Modification Proposal contains elements to address inconsistencies introduced into Section P by the implementation of a number of recent Modification Proposals. The nature of each change is described under Nature of Proposal. The aim is to modify Section P in a manner which is sympathetic to the introduction of competition in storage and to recognise changed relationships between Transco, Storage Operators and the Top-up Manager.

Nature of Proposal

This Modification Proposal consists of a number of elements which are complimentary to aid the operation of the Top-up regime. This includes:

* Correct minor cross referencing errors

Several minor numbering errors appear in Section P which should be amended to maintain the requisite level of accuracy desired in the Network Code. This would remove any ambiguity and misunderstanding which could otherwise materialise. These cross references would not materially alter Section P of the Network Code as written and would be identified in the legal drafting for this Modification Proposal.

* Re-introduce a generic definition of Facility Type

Under a previous Modification Proposal the definition of Storage Facility Type was deleted. Much of Section P relies on the definition of particular Storage Facility Types. The previous definition of Facility Types was based on named facilities i.e. Rough, Hornsea and LNG rather than the characteristics of those sites. It is proposed to reintroduce a definition of Storage Facility Type based on service duration derived from deliverability rates. Specifically it is proposed that three Storage Facility Types be defined based on service durations of less than 10 days, less than 30 days but greater than or equal to10 days and greater than or equal to 30 days. Defining facility types in this manner is more generic but comparable with the previous facility type definitions, and will allow Section P to function properly. These definitions would be necessary to facilitate changes to the monitoring of stocks and monitor levels mentioned later.

* The Top-up Manager should have access to information at the aggregate level for each Storage site.

Section P contemplates that the Top-up Manager will have information on gas Stocks in a facility at the individual Shipper level. This level of detail is in excess of that contemplated by the Storage Connection Agreement which requires the Storage Operator to provide details on stocks at the aggregate level. The Top-up Manager is able to fulfil his role adequately with information at the aggregate level which would ensure consistency with the level of information provision contemplated in the Storage Connection Agreement. This would require a change to the Network Code

* Allow all stored gas to contribute to monitor levels

The introduction of Storage Competition has led to a requirement to change the definition of which storage bookings the Top Up Manager will use to determine whether or not a Top-up requirement exists both ahead of the year and within year. It is proposed that it would be most appropriate to only contemplate gas which is capable of being withdrawn during the winter period as gas which should be considered as contributing to the monitor level. This should include all gas relating to all customers of a Storage Facility whether they are a User of Transco's System or not.

* Allow surplus Operating Margins gas to contribute to monitor levels

For supply security each facility type has a monitor level which has to be maintained as well as an aggregate monitor level across all sites. Where a shortfall against the aggregate monitor level exists the Top-up Manager has to take action to arrange for gas to be injected into the store to maintain the declared security of supply standard. The Top-up Manager can purchase gas to inject or arrange a transfer from the Operating Margins account, if a surplus exists, at a price predetermined by the Network Code. Since OM and Top-up are funded by different parties it is desirable to allow surplus OM gas to be counted towards the monitor level without actually conducting a financial transfer between the Top-up and Operating Margins accounts unless the gas is used.

* Allow surplus stocks in shorter duration facilities to contribute to the stock levels required in longer duration facilities.

The Network Code prescribes a hierarchy for monitor level maintenance. For example, there may be sufficient gas stocks in aggregate across all sites to meet the aggregate monitor level but a deficit of stocks may coexist in specific facility types. Where this occurs the current rules require injections to be made into the specific facility in deficit to bring stock levels back up to the site specific monitor level. Surplus LNG could easily act as a substitute for Rough or Hornsea and Hornsea could substitute for Rough, to some extent. The Network Code preclude the substitution of longer duration facility type stocks with those from shorter duration facilities. To ensure the monitor levels are maintained in the most economic and efficient manner possible, it is proposed that surplus stocks in shorter duration facilities should be allowed to contribute to the stock levels required in longer duration facilities.

* Review supply security level within year

It is expected that as storage competition develops and the storage market becomes more differentiated the current single date driven event for determining security of supply standard may no longer be relevant. At this time a determination of the Top-up requirement for the year is made, but The Network Code does not contain a mechanism for reviewing the declared Supply Security level within year. For example if new gas storage facilities become available within year then it is proposed that it should be possible to review the declared supply security level. This would take into account any additional storage bookings in the new storage facilities, changes to forecasts of supply and demand and would enable the Top-up requirement for the year should be redetermined.

* Gas Transfers under the terms of Late Booking

Currently, the Network Code states that in the event that the Top Up Manager has unfilled Storage Space, and a User is registered as holding Storage Capacity with an application made after the Invitation close date, then the Top Up Manager will surrender an amount of capacity equal to but not exceeding the amount of unfilled Storage Space it holds, to the User. Currently this applies to all Storage facilities. However, third party Storage Operators, except Transco LNG, may not have such provisions in their relevant Storage terms and as such it is proposed that these provisions should only apply to those Storage Operators whose Storage Terms contain matching provisions.

* Gas Transfers at 105% WACOG

The Network Code allows a Shipper to ask the Top-up Manager to transfer gas in store to a User at 105% of the Weighted Average Cost of Gas (WACOG) as defined in the Network Code. At the time the Network Code was written it was envisaged that this price was significantly high to discourage Users from asking for a gas transfer and was intended to incentivise Users to book and fill storage early. However, recent market prices have shown that 105% of WACOG has been less than the cost of NBP gas plus injection charges. This means that some Users could benefit from demanding a transfer of gas in store rather than purchasing gas from the market, in effect they could save money by forcing a transfer from the Top-up Manager when market conditions permit. Since Market prices may no longer allow the 105% WACOG incentive to work, it is proposed to establish a new mechanism for the pricing of transfers which would be 105% of the greater of WACOG or NBP gas plus injection charges of the appropriate facility in which the transfer would take place. This would keep the original incentive intact.

Purpose of Proposal

The changes included in this Modification Proposal allow Transco, the Top-up Manager and the industry to fully take account of the impact of recent changes in the regime and provide a more economic and efficient method of providing the necessary level of security of supply.

Consequence of not making this change

If these changes are not made then the inconsistencies introduced by recent implemented Modification Proposals will remain. In effect this prevents Transco and the Top-up Manager from carrying out their duties in the most economic and efficient manner possible. Given the

changed relationships between Transco, Storage Operators, Users and the Top-up Manager it is more probable that the current processes defined within the Network Code might lead to a lower declared level of supply security without there necessarily being a coincident increase in the physical possibility of failure to supply.

Area of Network Code Concerned

Section P,K,R & Z

Proposer's Representative

Dave Chamberlain (Transco)

Proposer

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Signature

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