NETWORK CODE MODIFICATION PROPOSAL No: 0450

SHORT TITLE: Entry Over-run Charges on Transco Nominations from Constrained LNG Sites

DATE: 12 January 2001 **PROPOSED IMPLEMENTATION DATE:** 1 May 2001

Urgency: Non-Urgent

Justification

Transco are entitled to constrain-on up to the full stock of an LNG site or its full physical deliverability if necessary, irrespective of bookings. Hence shippers can be allocated withdrawal nominations which exceed their booked deliverability, with no scope to avoid or mitigate any resultant entry capacity over-runs which ensue.

This Modification proposes that where gas is “constrained on” at a level above a user’s booked deliverability, entry over-runs should be zero for the quantity by which the nomination exceeds the booked deliverability.

This reinstates a change that was implemented by Modification 376 but only temporarily until 30 April 2000, pending the revised LNG tender arrangements “because the rules pertaining to LNG as from May 2000 need to be reviewed in light of the outcome of the Ofgem consultation on LNG issues”.

Background

Before the Network Code was implemented it seemed reasonable to assume that there would generally be several shippers holding LNG in a constrained site, and if constrained LNG was needed, and sufficient was in store and deliverable, Transco should have the right to demand it. Some shippers might be holding full stocks while others might have reduced their holding earlier in the winter, and Transco were only to be empowered to ensure that sufficient was held in stock at any time (the "monitor" level) for National purposes, but not otherwise limit each shipper's withdrawals.

For these purposes the Top-Up Manager is treated like any other shipper, and his gas can be constrained on too. The Top-Up Manager will have ensured that total booked deliverability at each site at least meets the predicted 1-in-20 requirement for the relevant area. So as long as any day's actual needs are less than that predicted requirement, there should be booked deliverability which can be used.

The main risk is that requirements on some day exceed the forecast 1-in-20 level.

This might happen either if the (local) demands exceed the 1-in-20 forecast, whether or not the same is true of National requirements, or if (for whatever reason) the gas able to be transported to the relevant area is less than the capacity assumed for Top-Up calculations.

In that case it is right that Transco should get the gas out rather than have or risk a failure, though the total withdrawn may exceed the total booking of deliverability. However the actual volume withdrawn has to be allocated to Users of Constrained Storage services at the site. Hence, when Transco's requirements are converted into nominations on individual shippers, a shipper's LNG withdrawal nomination may exceed that shipper's booked deliverability.

This was not thought at the time to be an unreasonable approach.

One consequence is that a shipper's LNG booking in a Constrained Site could be exhausted in a few days. This remains a risk to be accepted by shippers who book services at Constrained LNG sites, and this Modification proposes no change in this area.

A second issue is that the current arrangements provide that entry capacity overruns are payable in the event that nominations by Transco exceed a User's capacity booking. It is unfair that Users are charged overruns in the event that nominations by Transco exceed that User's available capacity. Shippers would normally have procured sufficient deliverability and entry capacity to meet their needs and sufficient deliverability in relation to their space bookings, and should be entitled to assume that this together with others' bookings (if any) and Top-Up would normally be available to meet the system's needs. If this is not so, then a shipper who has prudently procured and retained deliverability and who has provided gas to the system should not be (further) penalised by NTS entry over-run charges.

It is now proposed that NTS entry over-run charges at constrained LNG sites should be zero in respect of gas "constrained on" by Transco in excess of a User's capacity as booked with Transco LNG <u>without adjustment for (any) capacity trades.</u>

The underlined restriction is to ensure a shipper cannot trade away LNG capacity and thereby receive capacity trading income and also the proposed over-run waiver.

The User remains responsible for any entry over-runs incurred up to the level of the booked deliverability, which can be avoided by securing access to “standard” (firm or interruptible) entry capacity for the relevant site.

The “nil-cost over-runs” are secured (as with Mod 376) by applying for to Transco and Transco LNG to have the over-run charges set to zero within three working days. The main reason for this is that Transco need not be advised of individual storage bookings at any LNG sites affected.

It is proposed that this change be implemented from the beginning of the next Storage Year, being a date at which all existing LNG bookings have expired, rather than during the present Storage Year. This is solely to avoid any question that the Modification benefits retrospectively holders of capacity at Constrained LNG Storage Facilities.

Nature of proposal:

Entry over-run charges at constrained LNG sites should be zero in respect of gas "constrained on" by Transco where the constrained nomination exceeds a User's capacity as booked with Transco LNG without adjustment for (any) capacity trades.

Purpose of proposal:

To protect Shippers from inappropriate charges and to remove a feature which makes Constrained LNG services less attractive.

Furthering relevant objectives:

This Modification is intended to remove an unintended and unfair feature that tends to discourage use of Constrained LNG services for no good reason.

Consequence of not making this change:

Users of Constrained LNG Services may bear over-run charges for gas contributed to help with a local supply problem in circumstances in which they have no influence on the nominations (made on their behalf by Transco), despite having made prudent and reasonable arrangements for their own peak-shaving needs in a manner which enhances the security of their own users and others shippers'.

Also, the overruns may act as an unnecessary disincentive in respect of future bookings of services at Constrained Storage sites.

Area of network code concerned: Sections B and Z

Proposed text:

In Section B2.10.3 (NTS Entry Over-runs) add at end (i.e. after (iv)) -

"except that the System Entry Overrun Charge shall be zero in respect of any volume where the implied withdrawal rate of a Constrained LNG Renomination exceeds the implied withdrawal rate derived from that User's booking with Transco LNG Storage of firm Deliverability from that LNG site (excluding quantities acquired or disposed of by capacity trades), and where this applies the User must advise Transco within 3 working days that the zero rate applies and of the volume to which it applies and the User will supply reasonable evidence of the relevant booking to support this claim, failing which the Charge determined in accordance with paragraphs (i)-(iv) will apply."

IDENTITY OF PROPOSER'S REPRESENTATIVE: John Williams

PROPOSER: John Williams

SIGNATURE: