Draft Modification Report
Entry Over-run Charges on Transco Nominations from Constrained LNG Sites
Modification Reference Number 0450

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification 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.

2. Transco's Opinion

Transco recognises the benefits provided by Constrained Storage Facilities. These include the ability to nominate at any physically feasible flow rate when Transco believes this is necessary to meet demands. Given this benefit to security of supply, Transco agrees that it appears perverse that Users may face the prospect of over-run charges in respect of gas "constrained on" by Transco.

However, the effect of implementing this Modification Proposal would be to transfer risk from Users that book LNG capacity at the relevant facilities to Users at large. Transco has expressed concern about similar proposals in the past, on the grounds that they could be regarded as introducing complexity and discrimination into the entry capacity regime and because, in practice, cost exposure under the present arrangements is small.

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

The proposer suggested that this Modification Proposal is intended to remove an unintended and unfair feature that tends to discourage use of the Constrained LNG services for no good reason. Given that it could remove an impediment to the booking by shippers of capacity at Constrained Storage Facilities, this could be regarded as promoting efficient and economic operation of the pipeline system.

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

a) implications for the operation of the System:

This Modification Proposal might encourage the booking of constrained LNG, and bookings in excess of the minimum requirement enhance the security of the system and facilitate safe operation.

b) development and capital cost and operating cost implications:

No such costs have been identified.

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:

The Modification Proposal would reduce Transco's revenues, and this would be taken into account in the setting of future charges.

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

See (c) above.

5. 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

By putting the onus on shippers to make a claim, the Modification Proposal does not significantly increase Transco's contractual risk.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

No such implications have been identified. It is envisaged that claims would arise only rarely, and would be processed manually.

7. The implications of implementing the Modification Proposal for Users

The Modification Proposal would remove a specific risk from Users booking constrained LNG, and transfer it to Users generally.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

The Modification Proposal would encourage the booking of capacity at constrained LNG facilities.

9. 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

No such consequences have been identified.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Removal of the potential for what may be regarded as penal over-run charges.

Removal of a disincentive to booking constrained LNG.

Disadvantages

The introduction of additional complexity into the entry capacity regime.

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

Representations are now invited.

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

Implementation is not required for this purpose.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Implementation is not required for this purpose.

14. Programme of works required as a consequence of implementing the ModificationProposal

A new procedure for dealing with Users' claims would be required.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

If approved, implementation should be no later than 1st December 2001 so that the revised rules are in place when constrained LNG is most likely to be used.

16. Recommendation concerning the implementation of the Modification Proposal

Transco will make a recommendation once it has received representations.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: