Modification Report
LNG Overrun Regime for Constrained Storage Renominations
Modification Reference Number 0495

Version 1.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Modification Proposal was as follows:

"It is proposed that, while Transco is constraining on, Transco would pay any LNG deliverability overrun charges to Transco LNG. At other times, LNG customers would pay.

At present LNG customers are not allowed to reduce their prevailing nominations while a facility is constrained on. It is proposed that this should be allowed."

The Justification within the Modification Proposal was as follows:

"The intention of Modification Proposal 0376 was that, where LNG overruns arise from Transco constraining on, Transco and not LNG customers should pay the overrun charges. However the legal text specified a zero charge to Users, but did not require Transco to pay the charges.

Transco LNG is introducing a new customer access system, and this proposal is required to take advantage of its greater flexibility in revising Constrained Storage Renominations."

2. Transco's Opinion

Transco supports this Modification Proposal as it ensures that the party causing LNG deliverability overruns pays the charges. This Proposal has been discussed and supported in the Planning & Security (including Storage) Workstream. Transco is therefore proposing implementation of this Modification Proposal to re-capture the original intention of Modification Proposal 0376 "Overrun Charges on Transco Nominations from Constrained LNG Sites" and to remove the rule on LNG customers not being able to reduce their prevailing withdrawal nomination following a Transco constrained re-nomination.

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

By identifying costs between Transco as Gas Transporter and Transco LNG Storage, when a constrained LNG site is not fully booked, implementation would provide pricing signals to Users to make available any available but unused deliverability. This should further increase efficient and economic operation by the licensee of its pipe-line system.

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

a) implications for the operation of the System:

Implementation might provoke minor and beneficial changes in operations due to the possibility of available but unused deliverability becoming available from other Users.

b) development and capital cost and operating cost implications:

Implementation would increase Transco's costs as a Gas Transporter.

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 does not propose to recover any costs, which it may incur as a result of implementation of this Modification Proposal.

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

Transco is not aware of any consequence that implementation of this Modification Proposal would have on price regulation.

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

Transco is not aware of any consequence that implementation might have on the level of its contractual risk.

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

Transco LNG stated that a new system would be ready for implementation from December 2001 which would have the flexibility to effectively manage the operation of incorporating the requirement of this Modification Proposal. Transco is not aware of any other development implications for computer systems.

7. The implications of implementing the Modification Proposal for Users

Users would gain flexibility with regard to reducing prevailing withdrawal nominations in the event of a constrained Storage Facility being 'constrained on' and would have a new incentive to offer available but unused deliverability.

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

Transco LNG Storage would receive 'Storage Overrun Charges' from Transco acting as the Gas Transporter.

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

Contractually a charge would be placed on Transco as opposed to Users, to pay for 'Storage Overrun Charges' resulting from Transco 'constraining on' above available deliverability.

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

Advantages

- Users would no longer incur inappropriate charges for overruns in the event that constrained re-nominations, by Transco, exceeded that User's available deliverability as a result of constraining on an LNG site.
- Users would be able to reduce prevailing 'overrunning' withdrawal nominations, whilst continuing to ensure that Transco realises the constrained quantity required.

Disadvantages

- Transco as the Gas Transporter would pay any overrun charges to Transco LNG Storage, as a result of constraining on above available deliverability.

11. 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 from British Gas Trading (BGT) and Innogy plc both of which support implementation of this Modification Proposal.

Overrun Charges

BGT pointed out that "over-run charges are payable to Transco LNG in the event that a withdrawal allocation exceeds a User's available deliverability. 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 LNG deliverability.

Users of Constrained LNG Services might thus 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 customers and other shippers'.

The current regime may therefore act as an unnecessary disincentive in respect of bookings of services at Constrained Storage sites."

Transco's Response

Transco agrees that Users should not be liable to overrun charges if they have been incurred due to the delivery being constrained. This User liability does not exist whilst such overruns attract a zero charge but it is more logical for Transco to pay an overrun charge that might potentially be greater than zero.

Scope to Reduce Nominations

BGT further contended that "LNG customers are not allowed to reduce their prevailing nominations while a facility is constrained on. It is proposed that such customers should in future be allowed to alter their nominations subject to the revised nominations not being less than 'Storage Constrained Nomination Quantity'.

This allows Users a degree of added flexibility without jeopardising the transportation support needed.

It may have particular impact where, for whatever reason, an LNG User is 'over-running' despite his exposure to over-run charges, and Transco later 'constrains on', and the User subsequently wishes to reduce the scale of over-run. At present no renomination is allowed. There seems no reason why the User should not be allowed to reduce the export nomination provided the quantity needed to contribute to transportation support is maintained."

Transco's Response

Transco agrees with the User's summary of the present situation and agrees that Users should be allowed to reduce their withdrawal nominations whilst there is a constrained nomination in place.

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

Transco is not aware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirement.

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

Transco is not aware of any such requirement.

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

Transco recommends immediate implementation of this Proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of the Proposal.

17. 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.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

Transco propose implementation.

19. Text

SECTION R: STORAGE

Amend paragraph 4.2.5 to read as follows:

"Without prejudice to Section Z6.2.8, on a Constrained Storage Day…."

SECTION Z: TRANSCO LNG STORAGE FACILITIES

Delete paragraphs 1.4.5 and 1.4.6.

Add new paragraph 6.2.8 to read as follows:

"6.2.8 Where in respect of a Constrained Storage Day a User has made a Storage Withdrawal Nomination in respect of a Constrained Storage Facility which exceeds the Storage Constrained Nomination Quantity (in accordance with paragraph 6.9.2(c) but not (d)) the User may make a Storage Renomination such that the revised Storage Nomination Quantity is not less than the Storage Constrained Nomination Quantity (in accordance with paragraph 6.9.2(c) but not (d))."

Amend paragraph 6.8.1 to read as follows:

"….pursuant to a Storage Constrained Renomination."

Amend paragraph 6.8.2 to read as follows:

"The Storage Constrained Nomination Quantity under a Storage Constrained Renomination will be independent of the relevant User's Available Storage Deliverability, and other than where the circumstances in paragraph 6.8.3 apply, Transco, and not the User, will be liable (in accordance with paragraph 7, which shall apply *mutates mutandis* to Transco for the purposes of this paragraph) to pay (to Transco LNG Storage) any Storage Overrun Charges which may arise from a Storage Constrained Renomination."

Add new paragraph 6.8.3 to read as follows:

"6.8.3 Where the relevant User has made or makes a Storage Withdrawal Nomination for the Constrained Storage Facility in respect of which the Storage Nomination Quantity exceeds the Storage Constrained Nomination Quantity (in accordance with paragraph 6.9.2(c) but not (d)) the User will be liable (in accordance with paragraph 7) to pay any Storage Overrun Charges which may arise from the Storage Withdrawal Nomination."

Amend paragraph 6.9.2 to read as follows:

"(b) ….;

(c) subject to paragraph (d), for each User the Storage Constrained Nomination Quantity shall be in the proportions in which all Users have Available Storage Space in the Constrained Storage Facility on the Constrained Storage Day;

(d) subject to (a), where one or more Users have already made Storage Withdrawal Nominations or make a Storage Renomination under paragraph 6.2.8 for the Constrained Storage Facility in respect of which the Storage Nomination Quantity

exceeds the Storage Constrained Nomination Quantity (in accordance with paragraph 6.9.2(c) but not this paragraph (d)) the Storage Constrained Nomination Quantity:

(i) for any User with such a prevailing Storage Withdrawal Nomination or Storage Renomination, shall be equal to the prevailing Storage Nomination Quantity; and

(ii) in respect of other Users shall be the remainder of the Total Constrained Quantity in the proportions in which all such other Users have Available Storage Space in the Constrained Storage Facility on the Constrained Storage Day. "

TRANSITION DOCUMENT, PART II

Delete text at paragraph 8.17.4 and insert 'Not Used'.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0495**, version **1.0** dated **17/12/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

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

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.