

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0548
"Removal of Section Z and related Changes to the Network Code"
Version 2.0

Date: 11/04/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

In order to facilitate development of competitive storage services outside the existing Transco GT licence arrangements, Lattice Group has proposed to separate the LNG business from Transco. This Modification Proposal is required to facilitate the implementation of separate contractual arrangements between the LNG business and its customers.

Nature of Proposal

It is proposed to amend the Network Code by removing Section Z and making consequential changes to various other Sections. The amended Network Code would still contain the existing general terms applicable to all Storage Operators, but not any specific references to Transco LNG. This would promote the operation of Transco's LNG business in a manner consistent with other Storage Operators.

Transco expects that for the remaining part of the Storage Year 2002-03, Section Z will be replaced by separate LNG Storage Services Contracts, incorporating similar terms to those currently within Section Z. Thereafter, these would be replaced with more flexible terms consistent with the final form of regulation for LNG, to be agreed with Ofgem. Transco assumes that Users would wish to have some clarity on the form of regulation for LNG prior to finalising their responses. It therefore proposes that consultation on this Modification Proposal takes place in parallel with the development of the LNG Storage Services Contract, which will be consistent with the final form of regulation.

Purpose of Proposal

Separation of Transco's LNG facilities is consistent with Transco's obligation to secure effective competition between relevant Users and also the efficient discharge of its obligations under its Gas Transporter's Licence. It is also consistent with Ofgem's view expressed in the Final Proposals for the SO Incentives, published in December 2001, that Transco LNG should not have a regulatory rate of return but should compete to provide services to shippers, and, through a competitive exit regime, to Transco.

Consequence of not making this change

If this Modification Proposal were not implemented development of storage competition would be frustrated. Complex legal and commercial arrangements would also be required between the LNG business and Transco to facilitate LNG disposal and to ensure that Transco continued to comply with the Network Code.

Area of Network Code Concerned

Sections A, B, C, D, K, N, P, R, V, W & Z.

Proposer's Representative

John J Bradley (Transco)

Proposer

Tim M Davis (Transco)

Signature

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