

**TRANSCO WORKSTREAM REPORT**  
"Amendments to Operating Margins Pre-emption Rights at LNG sites"  
Version 1.0

**1 Background to the Modification Proposal**

BGT originally raised Modification Proposal 0551 which was submitted to Ofgem for urgent status as it believed the issue should be raised prior to LNG Disposal. Ofgem rejected urgent status and subsequently Modification Proposal 0558 was raised and submitted to the June Modification Panel Meeting. Panel members were not able to reach a consensus and therefore Transco referred the Proposal to the PSS Workstream meeting which was held on 9 July.

**2 Description of the Modification Proposal**

The Modification Proposal was as follows:

"The proposed changes are designed to avoid any impact to Transco's Safety Case by maintaining Transco's unlimited "pre-emption" rights. The changes would achieve this by allowing Transco to secure rights to capacity which holds another Users' gas by a form of tender, which would thereby indicate the value of any such pre-emption which Transco decide to exercise.

They are also designed to admit the prospect of varying OM requirements in future years while other Users may have multi-year LNG capacity bookings.

The Proposal would make three changes –

- i. Initially Transco would have “free” pre-emption rights in respect of LNG capacity up to a quantity at any site which is the greater of
  - a. the amount of OM gas held in that store at 1 March; and
  - b. the capacity at that site available to all Users for the ensuing Storage Year less the total quantity of gas held in store in firm bookings at 1 March by LNG Users other than by Transco for OM purposes.

This allows the OM Manager free access to all empty or unbooked capacity (case (b) above). Also, in any case where the capacity available to Users is reduced (as with Grain this year) case (a) ensures that the quantity available to the OM manager is never less than his inventory at that storage facility

- ii If Transco determine that the above is insufficient for the following Storage Year's OM needs, then Transco would be given scope to “buy” extra pre-emption rights. To this end, Transco would be entitled to publish a tender to buy gas-in-store bundled with capacity rights for the remainder of the current Storage Year. By publishing

such a tender Transco would have pre-emption rights to the capacity as defined in (i) and also to the additional capacity holding gas-in-store acquired in the tender process. This places no limit on the extent to which Transco may choose to increase their OM booking for the following Storage Year. The gas acquired would become OM gas in store at the date of acquisition and would reduce the procurement requirements for the ensuing year. This process would mean that a “market price” is determined for the capacity and gas which has to be released to enable the OM booking to be increased. Users should have not less than 7 working days to formulate responses to the tender.

- iii. The Code rules need to accommodate the possibility that Transco want additional capacity for OM purposes and publish a tender as above but Users holding such capacity decline to offer sufficient capacity in the tender. In this case, maintaining the integrity of Transco’s Safety Case requires that Transco should have the right to such additional pre-emption as is needed after the tender, irrespective of the impact on other Users and on any ongoing contracts Users may have with Transco LNG.

Thus where Transco seek additional space for OM use, they would in due course need to procure extra gas for this space. Where (but only where) there would be a conflict with other Users’ holdings of gas in store, the proposed process advances the gas procurement to precede any release of LNG capacity to other Users, with the aim that by the time of that release of capacity sufficient capacity would normally remain available to accommodate the total amount of gas.

The above changes would require that any long-term contracts between Transco LNG and their Users admit that capacity may have to be capable of being “clawed back” if the capacity left available after Transco’s OM requirements are secured is insufficient for Transco LNG to honour all ongoing contracts. This has to be borne in mind in structuring future relationships between Transco LNG and their customers but is not a Network Code issue. Also, it is an issue to be addressed whether or not this Modification is implemented."

### **3 Conclusion**

The Workstream agreed to recommend to the Modification Panel that this Proposal should proceed to development. This development phase should follow publication of Ofgem's decision on the regulatory regime applying to Lattice LNG after its separation from Transco.