

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

**1 Background to the Modification Proposal**

This Modification Proposal was raised prior to the June Modification Panel and referred to the Planning and Security (including Storage) (PSS) Workstream. The July Modification Panel agreed to request a Workstream Report for its October meeting.

**2 Description of the Modification Proposal**

The 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 Summary of Discussions**

This Proposal was discussed in the July PSS Workstream and in the September and October PSS Sub-Groups. The July meeting, conscious of the related consultation in respect of LNG separation, recommended that this Proposal be retained within the Workstream for further review. The September meeting decided to defer discussion until Transco had made further presentations on System Reserve Contestable Services.

The October meeting of the PSS Sub-Group considered the implications, if any, of the contestable service discussions.

The Proposer expressed the belief that the Modification Proposal was sufficiently developed to proceed to consultation. Transco expressed concerns that the Proposal combined two distinctly separate issues: costs of booking Storage Capacity and cost of procuring gas. The former was covered by Transco's incentives under its Licence, the latter by the Network Code. Transco suggested it would be more appropriate to address the development of a method of allocating a fair price for transferring gas-in-storage without involving capacity issues. Transco also identified that moving to a contestable service structure would raise similar issues due to the variation from year to year in the proportion of System Reserve met by demand and supply side services.

The Workstream considered the issues and recognised that Transco would be unlikely to support the Modification Proposal. It decided, however, that the Proposal was sufficiently developed to proceed to consultation.

#### **4 Workstream Recommendation**

**That Modification Proposal 0558 should now proceed to consultation.**