

Modification Report
Transitional Arrangements to facilitate the change of status of the Isle of Grain Storage Facility to a LNG Importation Terminal
Modification Reference Number 0647
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

For the 2004/5 Storage Year, it is proposed that transitional LNG storage services be made available at the Isle of Grain Storage Facility until the "Effective Date".

It is further proposed that under the transitional storage services procured:

- There would be no carry-over provisions for gas-in-storage with effect from the Effective Date; and
- Mandatory Withdrawals would apply unless alternative arrangements had been made between the Users concerned and parties that had secured a service at the Isle of Grain LNG Importation Terminal with effect from the Effective Date.

2. Transco's Opinion

Implementation of this Proposal would enable LNG Storage Services to be available to Shippers at Isle of Grain for as long as possible prior to the completion of conversion into an LNG Importation Terminal.

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

Enabling the part-year availability of LNG Storage Services from the commencement of 2004/5 Storage Year until the Isle of Grain Storage Facility ceases to be a Storage Facility is consistent with facilitating effective competition between relevant Shippers and relevant Suppliers.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco believes that implementation of this Proposal, together with implementation of Modification Proposal 0639, is required to retain continuity in the operation of the System.

b) development and capital cost and operating cost implications:

No such implications 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:

Transco does not propose to recover any costs that may arise from the 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 consequences 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 level of contractual risk arising from a consequence of implementation of this Proposal.

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

The computer systems of Transco and Users would have to recognise the change of status of Isle of Grain from a Storage Facility to an Importation Terminal. Transco does not believe that the impact on systems would be major.

7. The implications of implementing the Modification Proposal for Users

Users would only be able to book LNG Storage Services for part of the 2004/5 Storage Year and would subsequently be required to withdraw their gas-in-store by the effective date. Users would, however, be expected to take this into account when participating in the Annual Storage Invitation.

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

It would be expected that any savings or additional costs arising from a part-year procurement of storage services would be taken into account when placing bids in the Annual Storage Invitation.

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

Transco is not aware of any consequences arising through implementation of the Modification Proposal.

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

Advantage:

- Implementation of this Modification Proposal would facilitate the continuation of LNG Storage Services, for as long as operationally possible, prior to the conversion to a LNG Importation Facility.

Disadvantage:

- Users that decided to procure a storage service at the Isle of Grain Storage Facility and had not withdrawn gas prior to the effective date would be subject to mandatory withdrawals prior to the effective date.

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

Four representations were received to the Proposal:

Respondent	Response
British Gas Trading (BGT)	Against
BP Gas (BP)	In support
Powergen (PG)	Qualified Support
SSE Energy Supply Ltd (SSE)	Against

BP supported the Proposal in its entirety "as it would ensure that LNG Storage services would be made available as long as possible in the run up to LNG Importation. We believe that this is consistent with facilitating effective competition between relevant shippers and suppliers." BP held the view that the two elements of the Proposal were "appropriate to support the change of status of Isle of Grain in that they support the clear differentiation between the Storage status and the importation status."

PG, BGT and SSE expressed concern that transitional LNG Storage Services would be made available only until the effective date.

PG advised that they "would support this proposal only on the basis that LNG Storage Services would be made available at the Isle of Grain Storage Facility to all Users until the end of the 2004/05 Storage Year." PG stated that "there is a danger that cut-off would occur during the winter period when Users may have gas in store and are planning to withdraw on a high priced day." It also believed that by "requesting Users to withdraw their gas, potentially

during peak periods, would undermine security of supply for their customers." PG expressed their view that it was necessary for Transco to comply with the Storage Year to avoid the situation where they had the revenue for Storage Services without providing the full year service."

SSE stated that "it would be helpful if Transco could give some assurances that Isle of Grain LNG storage could continue to be made available at least until the end of January 2005." Also that "a reasonable indication of the Effective Date is given when the Annual Storage Invitation is issued by Transco, otherwise the uncertainty created could deter participation and use of this facility."

BGT stated that it was "concerned that the conversion of the importation facility to a storage facility during the winter period will alter the value of the storage product to be offered at in the 2004/05 Annual Storage Invitation. To prevent "Transco's ability to make windfall gains from the purchase of low priced gas from shippers who will become distressed sellers immediately prior to the effective date it believed that "either the commission of the Importation facility should be moved to the end of the storage year, or an adjustment should be made to Transco's revenues to account for any windfall gains accrued in this manner." BGT also commented that it would "welcome an extension of the consultation period for this modification 647" as it would "enable further exploration of the unresolved issues". It concluded that it was not "convinced that modification as proposed furthers the relevant objectives..."

Transco Response

The legal text identifies the notice to be provided to Users in respect of the effective date which would, in the event of implementation, not be prior to 1 January 2005. This would afford Users the opportunity to manage their stock position should they decide to procure a storage service, and Transco concludes from this that they would not become distressed sellers.

Users, rather than Transco, would become the primary beneficiaries of any low OCM prices resulting from storage withdrawals and therefore Transco would not be in the position of making large windfall gains. Transco also intends that the Isle of Grain reserve prices associated with the Annual Storage Invitation would reflect the part-year aspect of the storage service. This should ensure the revenue reflected the service provided.

Transco believes that the change of status of Isle of Grain would benefit supply security as importation is associated with rapid replenishment of stocks held at that location. Deferring the effective date to the end of the 2004/05 Storage Year would therefore reduce the security of supply benefit associated with Isle of Grain's change of status.

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 requirement to implement the Modification Proposal in order to facilitate compliance with safety or other legislation.

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 requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

No major programme of works has been identified.

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

Transco proposes that this Modification Proposal be implemented no later than 29 February 2004 (ie prior to the issue of the Annual LNG Storage Invitation 2004/5.)

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Modification 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.

19. Text

With effect from 0600 hours on 1 May 2004, amend the Network Code as follows:-

Amend paragraph 1.7.1(b) of Section R to read:-

- “(b) “**Transco LNG Storage Facilities**” means the LNG Facilities which are from time to time operated by Transco and are located at Glenmavis, Partington, Dynevor Arms and Avonmouth.”

Amend paragraph 4.1.1 of Section R to read:-

- “4.1.1 The Storage Facilities for which Transco LNG Storage is the Storage Operator at Dynevor Arms and Avonmouth are each a “**Constrained Storage Facility**” in relation to a Storage Year for the purposes of this paragraph 4.”

Add the following new paragraphs 8.14.11, 8.14.12, 8.14.13, 8.14.14, 8.17.9 and 8.17.10 to Part II of the Transitional Document:-

- “8.14.11 R1.4 In respect of the LNG Facility which is from time to time operated by Transco and is located at Isle of Grain (the “**Transco LNG Isle of Grain Storage Facility**”), the Storage Year 2004/5 shall be the period from 1 May 2004 until the earlier of:-
- (a) 30 April 2005; or
 - (b) the effective date determined in accordance with paragraph 8.14.14 below.
- 8.14.12 R1.7.1 For the duration of Storage Year 2004/5 relating to the Transco LNG Isle of Grain Storage Facility, the Transco LNG Isle of Grain Storage Facility shall be a “Transco LNG Storage Facility”.
- 8.14.13 R4.1.1 For the duration of Storage Year 2004/5 relating to the Transco LNG Isle of Grain Storage Facility, the Transco LNG Isle of Grain Storage Facility shall be a “Constrained Storage Facility”.
- 8.14.14 R For the purposes of paragraphs 8.14.12 and 8.14.13, the effective date shall be a date not earlier than the date notified by Transco LNG Storage for these purposes in the Annual Storage Invitation issued by Transco LNG Storage pursuant to Section Z in respect of Storage Year 2004/5, and shall be 0600 hours on a date falling between 1 January 2005 and 1 June 2005 (the “**First Window Period**”) and established by Transco LNG Storage in accordance with the following procedure:-

- (a) Transco LNG Storage shall give at least 180 days notice, before the commencement of the First Window Period, of a 100 day period falling within the First Window Period (the “**Second Window Period**”) during which the effective date shall fall; and
- (b) Transco LNG Storage shall give at least 90 days notice, before the commencement of the Second Window Period, of a 45 day period falling within the Second Window Period (the “**Third Window Period**”) during which the effective date shall fall; and
- (c) Transco LNG Storage shall give at least 30 days notice, before the commencement of the Third Window Period, of the day falling within the Third Window Period, which shall be the effective date.

If Transco LNG Storage does not so notify any such period or day, the relevant period or day shall be the latest day or period possible in accordance with the foregoing.

8.17.9 Z For the duration of Storage Year 2004/5 relating to the Transco LNG Isle of Grain Storage Facility, the provisions of Section Z shall (subject to the provisions of paragraph 8.17.10) apply to the Transco LNG Isle of Grain Storage Facility.

8.17.10 Z The following provisions of Section Z shall be amended as follows in respect only of the Transco LNG Isle of Grain Storage Facility for the purposes of paragraph 8.17.9:-

- (a) paragraph 3.1.1 shall only apply to the Transco LNG Isle of Grain Storage Facility for the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility. For the avoidance of doubt, in the event that the effective date determined in accordance with paragraph 8.14.14 of Part II of the Transition Document has not occurred before 1 March 2005, paragraph 3.1 shall not apply in respect of the Transco LNG Isle of Grain Storage Facility for any period after the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility;
- (b) paragraph 3.1.3(j) shall not apply in respect of the Transco LNG Isle of Grain Storage Facility; and;
- (c) paragraph 3.2.1(d) shall be deemed to read, “where the Annual Storage Invitation was made under paragraph 3.1.2(b) and the application is made pursuant to that invitation, the rates for the

Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility;”;

- (d) paragraph 3.5.3 shall be deemed to read, “In this paragraph 3.5 “**price**” means the rates (for the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility) of the Storage Space Charge and/or Storage Deliverability Charge tendered by a User in its application in accordance with paragraph 3.2.1(d).”;
- (e) paragraph 3.6 shall be amended to read:-

“3.6 Each User shall use reasonable endeavours to ensure that either:-

- (a) it has no gas-in-storage in the Transco LNG Isle of Grain Storage Facility as at the end of the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility; or
- (b) it has made arrangements with the person taking over operation of the Transco LNG Isle of Grain Storage Facility after the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility (and those arrangements have been confirmed by such person to Transco LNG Storage), pursuant to which such person agrees that the User’s gas-in-storage may remain in the facility after the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility.

In the event that the User fails to comply with paragraph (a) or (b) above, then the provisions of paragraph 6.4 shall apply.”;

- (f) paragraph 6.4.1 shall be amended to read:-

“6.4.1 Subject to paragraphs 6.4.3 and 6.4.6, where:-

- (a) on any Day during the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility, a User becomes liable to pay a Storage Overrun Charge in accordance with paragraph 7.1.1; or
- (b) a User has gas-in-storage at the end of the Storage Year 2004/5 in respect of the Transco

LNG Isle of Grain Storage Facility, and has not made arrangements (as set out in paragraph 3.6(b)) with the person taking over operation of the Transco LNG Isle of Grain Storage Facility after the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility;

the User shall be deemed to have made a Storage Withdrawal Nomination (and accordingly shall withdraw gas), for each of the 5 consecutive Days (Days 1 to 5) following such Day, for a Storage Nomination Quantity determined as $1/n$ times the amount of the User's Excess Gas-in-Storage."

(g) paragraph 6.4.2(b) shall be amended to read:-

- "(b) the User's "**Excess Gas in Storage**" on any of Days 1 to 5 is:-
- (i) for any Day during the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility, the amount by which the User's gas-in-storage, less the Permitted Uncovered Amount (under paragraph 3.6.2), exceeds its Available Storage Space, on that Day; and
 - (ii) for any Day after the end of the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility, the amount of gas-in-storage of the User at the end of the Storage Year 2004/5 in respect of the Transco LNG Isle of Grain Storage Facility less any amounts withdrawn by the User on subsequent Days (whether or not such withdrawal is made pursuant to this paragraph 6.4)."

Signed for and on behalf of Transco.

Signature:

Mike Calviou
Commercial Frameworks Manager
NT & T

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 **0647**, version **1.0** dated **14/01/2004**) 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.