

**OFGEM DECISION LETTER No. 0551**  
"Amendments to Operating Margins Pre-emption Rights at LNG Sites"  
Version 1.0

Direct Dial: 020-7901-7355  
21 June 2002

Transco, Shippers and Other Interested Parties

Your Ref:  
Our Ref : Net/Cod/Mod/0551

Dear Colleague,

**Modification Proposal 0551: Amendments to Operating Margins Pre-emption Rights at LNG Sites**

Ofgem has considered the request from British Gas Trading (BGT) for modification proposal 0551, "*Amendments to Operating Margins Pre-emption Rights at LNG Sites*" to follow urgent procedures. We do not agree that this modification merits urgent status.

This modification proposes an amendment to the present Network Code rules relating to Transco's booking of LNG capacity for Operating Margins (OM) purposes. Currently, Section K of the Network Code effectively permits Transco unlimited pre-emption rights over all LNG capacity, including that which might be held by other Users, eg. shippers, should it be required for Transco's OM requirements. In certain circumstances, this could lead to a User becoming a 'distressed seller' of gas-in-store because it would have a reduced capacity holding due to Transco exercising its pre-emption rights.

BGT instead proposes that Transco should retain an element of "free pre-emption rights". These rights are defined as being the greater of the following: a) the amount of OM gas held in store at 1 March; and b) the capacity available at a LNG facility minus the firm bookings held by Users as of 1 March. However, to the extent that access to this volume of rights proved to be insufficient for Transco's OM requirements, Transco should be able to tender for gas-in-store bundled with capacity rights. In this way, Users would receive market-related prices for both their gas-in-store and the associated capacity rights.

In the event that other Users declined to offer sufficient capacity in such a tender, this proposal states that Transco should retain additional pre-emption rights in order to comply with its Safety Case.

BGT considers that modification proposal 551 merits urgent status because of Lattice's proposal to remove the LNG facilities from Transco's GT licence and into a separate, non-licensed business within the Lattice Group. BGT states that Lattice has indicated that the new LNG company would continue to offer different contractual to Transco and other Users respectively based on the current Network Code rules.

Ofgem will shortly be issuing a consultation document in which we will seek respondents' views on a number of issues relating to the proposed removal of the LNG facilities from Transco's GT licence. One of the issues raised will be the different contractual terms that are currently offered

to Transco and other Users respectively for LNG services, the problems arising from this situation and how these might be addressed going forward. Ofgem therefore feels that that modification 551 does not merit urgent status.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Nick Simpson  
Director, Industry Codes