

MODIFICATION REPORT PREPARED PUSUANT TO RULE 9.1.2(C)
IN RESPECT OF URGENT PROPOSAL REFERENCE 0012

DATE: 18th March 1996

IMPLEMENTATION DATE:
06:00 HRS 16th March 1996

CIRCUMSTANCES BEHIND MODIFICATION:

Use of the Flexibility Mechanism during March, particularly on 11th 12th & 13th when unseasonably high demand (340MM against 280MM a few days earlier) created a lack of beach gas and high priced Flexibility Bids, had caused TransCo to spend the agreed L10 million cap in balancing the system. TransCo therefore called a meeting of Shippers and Ofgas to review the situation, explore possible options and develop an agreed solution.

NOTE OF MEETING HELD ON FRIDAY 15TH MARCH AT THE COMMERCIAL GAS CENTRE TOTTENHAM COURT ROAD

The meeting was Chaired by S.Sutcliffe, Account Manager, TransCo, and attended by approx. ?? shipper representatives (a list of attendees is attached).

1. Outline Position

1. In the early days of operation shippers had maintained a fairly close balance on their portfolios (to within 1% or 2%).
2. Over the period 11th-13th March a serious under delivery developed (amounting to some 5% of aggregate requirement) coupled with rising demand. TransCo therefore used the Flexibility Mechanism to make system buys of 40MM.
3. The least cost available bids were largely from BGT and were high priced LNG resulting in an expenditure of L19 million.
4. This level of expenditure, taking the total for the month beyond the agreed L10 million cap, would result in the Flexibility Mechanism being suspended.
5. TransCo had circulated two Urgent Modification Proposals as a way of avoiding the automatic suspension of the Flexibility Mechanism under the current terms of the Network Code without prior discussion.

In opening the meeting TransCo made it clear that its' concern was to understand why the particular circumstances had arisen and then to take appropriate steps (which may include making an Urgent Modification to the Network Code) following consultation in the meeting.

To avoid pre-judging any Modifications which might arise from the present meeting TransCo withdrew those Modifications (Reference 0010 and 0011) previously circulated.

2. Business of the Meeting

TransCo expressed its surprise at the low level of activity

generated when Renominations were called for in response to the changing weather conditions. There was also concern at the small quantities being bid to the Flexibility Mechanism.

The various provisions under the Network Code were clearly not being employed as envisioned and as a result the industry was unable to take advantage of the commercial opportunities which offered themselves.

Shippers responded that there were a number of reasons for this situation, including:

- a) the wish to gain experience, and sort out some operational problems, before participating in the Flexibility Mechanism,
- b) balancing their own portfolios taking more effort than anticipated as a result of inaccurate supply point and demand attribution information,
- c) as a result of the "soft landing" monthly cash out some shippers were deliberately underdelivering to bring their aggregate position into balance, this being further aggravated by a perceived bias towards overestimation in TransCos NDM algorithms,
- d) few shippers were able to react out of hours to forecast changes in demand,
- e) poor quality data flow from Producers regarding the true offshore position,

In summary, the meeting felt that the various teething problems which the industry had experienced with systems and the commercial regime had been magnified by the unusual weather conditions over the period.

3. Options Available

TransCo outlined the various options now available, they were:

1. Suspend the Mechanism and ask BGT to provide all balancing gas at the 30 Day WAP applicable at the time of suspension. This is the situation contemplated by the Code. In the current circumstances WAP would be around 1.2 pence per Kwh.
2. Suspend the Mechanism as per the Code but have Ofgas determine a different WAP for cash out purposes. This would require a Code Modification.
3. Leave the Mechanism in operation with an amended WAP determined by Ofgas. This would require a Code Modification.
4. Leave the Mechanism in operation with the existing price. This would require a Code Modification.

After some wide ranging discussion, and as a positive step, BGT offered to retrospectively amend the prices of the bids which TransCo had accepted during 11th/12th March. The meeting adjourned to consider the position.

4. Decision

Following offline discussions it was agreed that:

- a) The BGT offer to reduce it's prices should be accepted in order to bring system expenditure within the existing L10 million cap.
- b) For the rest of March 1996 the daily capacity rate for Flexibility Bids would be the same as set for April and beyond - 5 times the daily average price.
- c) Balancing Margins to be used in preference to Flexibility Bids once the price reaches 1.5 pence per Kwh.

Following this decision TransCo prepared, and Ofgas agreed, an Urgent Network Code Modification, Ref 0012, with the attached text to become effective at 06:00 on Saturday 16th March.

The Modification was circulated to all shippers by facsimile on the evening of Friday 15th.

Shippers were also in favour of an overall cap on the end of March cash out price at 15 pence per therm. TransCo prepared a second Urgent Modification proposal (Ref 0013) which Ofgas were not prepared to agree to without further operational experience. This proposal is therefore classed as Urgent and is not to be implemented pending Ofgas decision.