

Modification Report
Modification Reference Number 0118
Allow Top-Up Manager to Access Unused Storage Deliverability

This modification report is made pursuant to Rule 9 (**Urgent**) of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making This Modification Urgent

In accordance with Rule 9.2(a) Ofgas has agreed that this modification should be treated as URGENT because it should improve system security.

2. Procedures Followed

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal:

10/02/97 Ofgas agree Urgency
11/02/97 Proposal circulated inviting representations.
28/02/97 Representations close out.

3. The Modification Proposal

This modification relates to section P of the Network Code.

The proposal is that Transco will place a specific Top-Up bid related to the available unbooked deliverability at a price equivalent to the highest Top-Up bid price irrespective of which site the overrun is incurred. Transco will also ensure that these bids are only taken after all other Top-Up and BM bids have been taken to reduce the impact on Top-Up revenues for the day. Furthermore it is intended to state in the Operational Guidelines that these bids will be taken in the balancing hierarchy prior to the Operating Margins gas which is used just before an emergency

4. Transcos opinion

It is Transcos opinion that this modification should be approved.

5. Extent to which the modification would better facilitate the relevant objectives

Currently within the Code there are no specific commercial arrangements for Transco to gain access to any unused storage deliverability prior to an emergency, should there be insufficient incentive for shippers to incur overruns and place flexibility bids. This could result in an emergency being declared earlier than necessary. To allow Transco to access any unbooked deliverability it is proposed that Transco calls upon this capacity through its' Top-Up role by incurring storage overrun charges.

This modification will therefore provide a commercial mechanism for Transco to access unbooked storage deliverability.

6. The implications for Transco of implementing the Modification Proposal, including:

a) implications for the operation of System and any BG Storage Facility:

Transco will need to place additional Top-Up bids on the flexibility mechanism

b) development and capital cost and operating cost implications

None

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:

It is already established that Transco remain neutral on Top-Up costs and therefore it is proposed that Transco will offset bid revenues from all Top-Up bids on the day with storage capacity overrun charges on the same day.

d) analysis of the consequences (if any) this proposal would have on price regulation:

None

7. 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:

None

8. The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:

None

9. The implications of implementing the modification for Relevant Shippers.

Will reduce the likelihood of an emergency being declared.

10. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party:

Will reduce the likelihood of an emergency being declared.

11. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal:

Transco assume that reducing the likelihood of an emergency will be looked upon favourably by the HSE and therefore should not hinder the agreement of the Transco safety case

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

Transco is not aware of any disadvantages of implementation of this proposal.

The proposal has the advantage of allowing Transco to specifically call upon unbooked, but available deliverability at storage sites where Top-Up gas is available. This will reduce the likelihood of calling an emergency which is an advantage to all parties.

13. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report:

There was majority support to the proposal from the shipping community with three in favour and one against. The proposal was also supported by the Major Energy Users Group.

Of those supporting there were certain caveats to their support. These are summarised below:-

- a) Transco should seek any lower cost options prior to using overruns e.g. any unused shipper deliverability.
- b) Flexibility mechanism should be reviewed to allow better access by producers and users. Unsold deliverability should be offered to users who would pay an option premia for it plus a fixed fee for using it. Remainder to be offered Free of Premia to Top-Up manager.
- c) Concern expressed that although an emergency could be averted initially it may reduce system security on future days.

The objections put forward by the one shipper not supporting the proposal can be summarised as follows:-

- a) Merging of roles of Top-Up manager, Transco as PGT and Storage
- b) Top-Up role being extended outside original remit.
- c) Don't see how this modification sends out the right commercial signals and therefore help avoid an emergency.

- d) Same logic used from Transco as earlier drafts of emergency procedures requiring shippers to advise Transco of available gas. This was dropped and therefore this is not an acceptable alternative.

Transco Response

Supporters comments.

- a) Transco support this suggestion. As Transco are allowed under section P of the Code to trade with other users it is recommended that this option is considered for incorporation into the Operational Procedures
- b) The flexibility mechanism issue could presumably be considered as part of the Caminus review. Storage will be considering options for developing the Rough space only service over this summer, but any development will not remove the need for this modification as there is always going to be the possibility of there being unbooked storage.
- c) Transco's proposal delays the point at which an emergency is declared and it will also lead to earlier depletion of storage stocks in a severe winter. On balance however it would be better to delay an emergency in the short term at the risk of a longer term emergency situation developing. There could be some point later in the winter when gas stocks could be replenished, except in a 1 in 50 winter.

Non-supporter comments

- a) Storage is clearly separate in this debate as the Top-up manager is merely working within the Code rules for section R by choosing to overrun. There is no interaction between the Top-Up manager and Transco as a PGT as it is the NEC that calls an emergency and the PGTs just follow rules for dealing with an emergency.
- b) Transco also see this as extending the role of the Top-up manager, but in the interests of the reducing the likelihood of an emergency. This could be reviewed as part of the Caminus study.
- c) This modification does not propose this it merely gives Transco a commercial mechanism for accessing spare deliverability.
- d) The modification argues for a means of reducing the likelihood of an emergency. Transco maintain that lack of gas availability information from shippers (and producers) may lead to the unnecessary calling of an emergency. The HSE do not see this as a problem, however they have commissioned Arthur D little to examine if the new regime for gas is as safe as the old regime. We do not know what the outcome of this will be and therefore we cannot conclude that things will not change.

15. Having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence:

None

16. Programme of works required as a consequence of the implementation of the Modification Proposal:

Revision of Operational guidelines required.

17. Proposed implementation timetable:

The modification will be implemented as soon as Direction is given.

18. Recommendation for the implementation of the modification:

Transco recommends that this modification is implemented.

19. 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.

20. Transco Proposal

This Modification Report contains Transcos proposal to modify the Network Code and Transco now seeks a direction from the Director General in accordance with this report.

21. Text provided pursuant to Rule Rule 9 (Urgent).

Section P is revised as follows:

New paragraph 5.4

"5.4.1 The Top-up Manager will also make a Flexibility Bid (an "Emergency Top-up Flexibility Bid") for a System Entry Buy at the Storage Connection Point of each Top-up Storage Facility for each Day in the Storage Year in accordance with this paragraph 5.4.

5.4.2 Subject to paragraph 5.4.3, an Emergency Top-up Flexibility Bid shall be considered to be a Top-up Flexibility Bid for all purposes of the Code other than paragraphs 5.2.1 and 5.3.

5.4.3 In relation to an emergency Top-up Flexibility Bid:

- (i) paragraph 5.2.4(b)(ii) shall apply as though the reference to the Top-up Manager's Available Storage Deliverability were to the Uncommitted Storage Deliverability in the relevant Top-up Storage Facility (and accordingly where an Emergency Top-up Flexibility Bid is accepted the Top-up Manager will incur a Storage Overrun Charge);

- (ii) paragraphs 5.2.4(d) and 5.2.5(d) shall apply as though the reference to the Top-up Bid Price were to the highest Top-up Bid Price in respect of any Top-up Storage Facility.

5.4.4 Transco will accept a Top-up Flexibility Bid other than an Emergency Top-up Flexibility Bid before accepting an Emergency Top-up Flexibility Bid having the same Bid Price as such Top-up Flexibility Bid."

Amend paragraph 6.1.1:

- "(vi) by way of Flexibility Overrun Charges in respect of Top-up Flexibility Bids and Storage Overrun Charges in respect of Emergency Top-up Flexibility Bids"

Amend paragraph 6.3.5:

- "(a) the amount of the Adjusted Estimated Daily Top-up Amount, plus the amount of the Storage Overrun Charge in respect of any Emergency Top-up Flexibility Bid on that Day, less"

Transition Document Part II, Section P, P5:

New paragraph (6):

"Transco will accept a Balancing Margins Flexibility Bid before accepting an Emergency Top-up Flexibility Bid having the same Bid Price as such Balancing Margins Flexibility Bid."

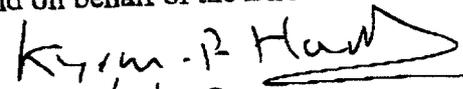
Signed for and on behalf of BG Transco.

Signature: 
Date: 7/3/97
Name: RICHARD ROBINSON
Position: MANAGER, SUPPLY DEMAND

Director General of Gas Supply Response

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct BG Transco that the above proposal be made as a modification to the network code.

Signed for and on behalf of the Director General of Gas Supply.

Signature: 
Date: 20/4/97
Name: Kyran Hanks
Position: Head of Network Operations

The network code is hereby modified, with effect from ^{6th} April, in accordance with the above proposal. 1997.

Signature:

Secretary Modification Panel
BG Transco

- (ii) paragraphs 5.2.4(d) and 5.2.5(d) shall apply as though the reference to the Top-up Bid Price were to the highest Top-up Bid Price in respect of any Top-up Storage Facility.

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ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.