

MODIFICATION PROPOSAL

REVISION OF ROUGH SERVICES

DATE: 1st July 1998

PROPOSED IMPLEMENTATION DATE: 1st October 1998

URGENCY: This proposal forms part of a package designed to address inefficiencies in the Gas Balancing Regime prior to October 1998, as part of Ofgas' 1998 Review. The limited time available for implementation, coupled with the ongoing unjustifiable level of risk faced by shippers dictate that this proposal be treated as Urgent.

JUSTIFICATION:

In spite of limited changes that have been introduced in 1998, the current restricted range of storage services continues to inhibit competition in the provision of peak gas.

The Network Code further prevents economic access to storage in other ways:

- * The charging mechanism discourages shippers from booking unsold capacity after the start of the storage year.
- * The system entry capacity booking regime inhibits access to interruptible storage in the absence of a liquid secondary market in capacity, requiring a full year of system entry capacity to be booked with 7 business days notice in order to flow gas out of storage on an interruptible service. This represents a large supplementary charge for firm pipeline capacity that is not commensurate with either the value of interruptible storage or the nature of its usage.
- * The absence of penalties on BG Storage for failure to deliver leaves all risk with shippers even though shippers now prefer to trade almost exclusively at the NBP.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Rough deliverability will continue to be withheld from the market when it is most required. At peak times the risk of extreme pricing on the flexibility mechanism will continue.

AREA OF NETWORK CODE CONCERNED:

Sections B2.5 (flexibility overrun charges) & B2.6 (overrun charges); R6 (Withdrawals) especially R6.4 (Withdrawals under Interruptible Storage Capacity), R7.1 (Storage Overrun Charges) ; R1.3.3 & R6.7 (Reduced penalties for Transco failure) ; R1.6 (Force Majeure).

NATURE OF PROPOSAL:

The protection currently received by Transco for failure to meet a properly nominated withdrawal should be removed. R6.7 will be deleted and the reference struck from R1.33. R1.6 (Force Majeure) should correspondingly be removed.

Penalties to prevent or deter booking of storage capacity after the start of the storage year should be removed, including R3.8.2 (which prevents interruptible capacity being booked after 30 November), R3.8.8 which dictates that higher charges are paid for late booking, R3.8.9(ii) which defines the booking penalty.

PURPOSE OF PROPOSAL/ACHIEVEMENT OF RELEVANT OBJECTIVES:

The proposed modification will facilitate achievement of the relevant objectives by:

- * Promoting the efficient and economic operation of the pipeline system by enhancing system utilisation:
Encouraging efficient discharge of Transco's obligations under its licence, including efficient balancing of the pipeline system by removing barriers to gas entry and by reducing the costs of balancing and consequently the balancing neutrality charges borne by shippers which arise from the extreme prices in the flexibility mechanism.
- * Providing greater access to peak gas will also enhance competition in shipping and supply. Therefore, consumers will benefit from lower gas prices.

PROPOSER: Doug Wood

ON BEHALF OF: AGAS, Alliance Gas, Dynegy, Enron, Shell Gas Direct

SIGNED:

DATE: 1 July 1998

Reference Number: 0243