

Draft Modification Report
LNG Annual Storage Invitation terms into Network Code
Modification Reference Number 0723

Version 1.0

This Draft 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

The Nature of this Proposal was as follows:

Incorporate Standard ASI Terms

Transco LNG Storage (TLNGS) proposes to incorporate current standard Annual Storage Invitation (ASI) terms ie the terms that have been replicated over several years, into Network Code Section Z. Such service terms include Tanker Filling Arrangements, Low Cost Deliverability Overruns, Attribution of Value and Short Standby Charging Regime.

Creation of TLNGS Credit Terms

Furthermore TLNGS proposes to incorporate text into the Network Code Section Z, which states that should Users apply for LNG Storage Capacity then they would be deemed to have accepted the TLNGS Credit Terms upon capacity application. Additionally LNG would be obliged to make Users aware of how to get access to the TLNGS Credit Terms and would discuss any modifications to such terms with relevant Users.

Correction of Minor Section Z Errors

Finally, TLNGS proposes to correct minor errors in the current Section Z text, which have been identified over the last year since the implementation of modification proposal 0608. The required amendments include the addition of a reference to Injectability in Z3.5.1 and the correction to the Injectability compensation formula.

2. Transco's Opinion

In recommending implementation of this Proposal, Transco has taken into account the following:

Since the 2000/01 Storage Year, TLNGS has invited applications for Storage Capacity in each of the relevant Storage Facilities in accordance with Network Code Section Z3.1. Since this initial ASI, TLNGS has clarified elements of the LNG service in each subsequent ASI to ensure that potential Users have all relevant information to allow them to bid for annual LNG Storage Capacity. As a result the 2004/05 ASI, which was issued on 1st March 2004, totalled 21 pages of both service terms and data. Additionally, current TLNGS Users have inconsistent credit terms and there are errors in Section Z text as a result of the implementation of Modification Proposal 0608.

Implementation of this Proposal would incorporate Standard ASI Terms into Network Code which would reduce the administrative burden upon LNG Storage in creating the ASI and would expedite Users tender evaluation process. The ASI would then be a 'data' document, which would consistent

with a request made at PSS Sub Group for only relevant information to be issued in tender documentation.

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

Streamlining the ASI would be consistent with furtherance of economic and efficient operation by Transco of its pipeline system. It would also serve to make the procurement of storage services more accessible to shippers. This is consistent with facilitating the achievement of securing effective competition between relevant shippers.

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

a) implications for the operation of the System:

Transco is not aware of any such implications.

b) development and capital cost and operating cost implications:

Transco is not aware of any such implications.

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 believe this to be applicable.

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

Transco is not aware of any such implications.

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 believes that, by standardising credit terms, implementation would lead to a minor improvement in the level of its contractual risk.

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

Transco is not aware of any such implications.

7. The implications of implementing the Modification Proposal for Users

Users would no longer need to consider in detail all the terms within a 21 page document but be able to focus their attention on the key commercial terms expressed within a much shorter ASI.

Users would also have the confidence that their credit terms are no different from any other party and use of standard terms would streamline applications for Storage Capacity under the ASI process.

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

Users would be expected to pass on any benefit to their customers but this benefit is not expected to be major.

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 such consequences.

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

Transco has identified the following advantages of implementation of this Modification Proposal:

- Reduction in the level of checking required by intended tenderers to the ASI
- Improved focus on the terms that remain within the ASI
- Consistency in credit terms.

Transco is not aware of any disadvantages.

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

Transco now invites representations.

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 such requirement.

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 such requirement.

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

Transco is not aware of any such requirement.

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

Transco recommends immediate implementation.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Proposal be implemented.

17. Text

Section Z

Insert the following as a new paragraph 2.6.5:-

2.6.5 Where a User tenders a single composite price, in accordance with paragraph 3.5.4, Transco LNG Storage shall calculate and notify the User of the ratio of the bundled unit of Storage Capacity split between Storage Injectability, Storage Space and Storage Deliverability and the Applicable Storage Capacity Charge Rates no later than 28th April in the Preceding Storage Year.

Amend paragraphs 2.9.1 and 2.9.2 to read as follows:-

2.9.1 Transco LNG Storage may enter into arrangements ("Tanker Filling Arrangements") pursuant to which Users ~~may that~~ hold ~~Storage Space and Storage Injectability~~ Capacity and have gas-in-storage in a Transco LNG Storage Facility and may withdraw gas from such facility as LNG loaded onto road tankers.

2.9.2 Under a Tanker Filling Arrangement, the requirement as to Storage Duration of paragraph 2.3 will not apply in respect of the User's ~~Storage Space but the User will pay charges (in accordance with the Annual Storage Invitation) for the entitlement to withdraw and/or withdrawing gas under such arrangement~~ Capacity, unless such Storage Capacity was allocated to the User following an application made in response to an Annual Storage Invitation.

Insert the following as new paragraphs 2.9.3 to 2.9.9:-

2.9.3 The provisions of this Section Z (other than paragraph 6) shall apply to Tanker Filling Arrangements, provided that the terms applicable to the withdrawal of LNG from the relevant Transco LNG Storage Facility into road tankers shall be set out in an agreement ("Tanker Filling Agreement") between Transco LNG Storage and the User concerned.

2.9.4 Until the User has entered into a Tanker Filling Agreement with Transco LNG Storage, the User shall not be entitled to withdraw LNG from the relevant Transco LNG Storage Facility into road tankers.

2.9.5 "Tanker Filling Slot" means an allotted amount of time on a day during which a User may withdraw gas from an LNG storage facility and load such LNG onto a single road tanker filling to its maximum statutory road capacity or part thereof. An "Annual Tanker Filling Slot" is an entitlement, subject to paragraph 2.9.8, to use one Tanker Filling Slot per day during the Storage Year.

2.9.6 Transco may invite applications for Annual Tanker Filling Slots in the Annual Storage Invitation. Where a User wishes to apply for an Annual Tanker Filling Slot, it shall submit an application to Transco LNG Storage setting out:

(a) the identity of the User;

(b) the number of Annual Tanker Filling Slots applied for; and

such other information as the Annual Storage Invitation may require.

2.9.7 Where applications made for Annual Tanker Filling Slots exceed in aggregate the number of Annual Tanker Filling Slots available at the Transco LNG Storage Facility in question, then Transco LNG Storage allocate Annual Tanker Filling Slots to each User in the proportion that the number of Annual Tanker Filling Slots applied for by that User at the Transco LNG Storage Facility in question bear to the total number of the number of Annual Tanker Filling Slots applied for by all Users at the Transco LNG Storage Facility in question.

2.9.8 Tanker Filling Slots will not be available on days when the tanker filling equipment is undergoing maintenance, as such planned maintenance days are set out in the Annual Storage Invitation. In addition to these planned maintenance days, Transco LNG Storage shall be entitled to give notice of up to five additional maintenance days within the Storage Year. Transco LNG Storage will give not less than two weeks notice of any changes to any planned (or additional) maintenance days. For each change to planned (or additional) maintenance days, where notification is not given within this period, Users will be entitled to compensation equal to 1/365th of the annual charge per allocated Tanker Filling Slot.

2.9.9 A User will pay:

- (a) the prices set out in the Transco Licence for the supply of Tanker Filling Arrangements prior to the Transco LNG Invitation Close Date for the Storage Year in question; and / or
- (b) the charges set out in the relevant Annual Storage Invitation for the supply of Tanker Filling Arrangements in accordance with paragraph 3.1

Amend paragraph 3.1.3(d) to read as follows:-

- (d) ~~not used~~ the Permitted Deliverability Overrun Charge Rate;

Amend paragraph 3.5.1 to read as follows:-

3.5.1 This paragraph 3.5 applies where the Annual Storage Invitation in respect of a Transco LNG Storage Facility was made under paragraph 3.1.2(b), and references in this paragraph 3.5 to Storage Capacity are references to Storage Space, Storage Injectability, Storage Deliverability or ~~both~~ any combination of them, as appropriate.

Amend paragraph 5.6.4 to read as follows:-

5.6.4 "...an amount calculated as:-

$$\frac{(C - 183)}{183} * (U - F)...$$

Amend paragraph 5.7.2 to read as follows:-

5.7.2 "...shall be determined as:-

$$\frac{(C - 183)}{183} * (U - F)...$$

Amend paragraph 6.1.2(b) to read as follows:-

- (b) subject to paragraph 7.2, gas at a rate in excess of its available withdrawal rate.....

Insert the following new paragraphs 6.2.9 and 6.2.10:-

6.2.9 Transco LNG Storage will determine the operational Standby State for each Transco LNG Storage Facility. Each Transco LNG Storage Facility will be held at the shortest withdrawal lead time on a day where at 16:00 hours on the previous Day, the conditions set out in the Annual Storage Invitation are satisfied.

6.2.10 Should Users require a particular facility to be brought to a shorter lead time than the prevailing one then they will be charged at the relevant rate shown in the Annual Storage Invitation unless, for the Day for which shorter lead time is requested, at any time between 16:00 hours on the previous Day and the end of the relevant Day, the conditions in 6.2.7 are satisfied, or the User withdraws gas from the facility on the Day.

Amend paragraph 7.1.1 to read as follows:-

7.1.1

(a)

(b)

(c)

- (d) in respect of a User's Storage Withdrawal Nomination, the implied withdrawal rate exceeds the available withdrawal rate, and/or
- (e) in respect of a User's Storage Injection Nomination, the implied injection rate exceeds the available injection rate;

..... in accordance with paragraph 7.1.2.

Insert the following as new paragraph 7.1.2(c)(iii):-

- (iii) where the overrun is a Permitted Deliverability Overrun, the Charge Rate as specified within the Annual Storage Invitation;

Amend paragraph 7.2 to read as follows:-

7.2 ~~Not used~~ Permitted Deliverability Overruns

- 7.2.1 Subject to paragraphs 7.2.2 to 7.2.8 below and the provisions paragraph 6, a User will be permitted to submit a Storage Withdrawal Nomination (or a Storage Renomination in respect of such a Storage Withdrawal Nomination), pursuant to which the implied withdrawal rate exceeds the User's available withdrawal rate at the relevant Transco LNG Storage Facility.
- 7.2.2 A "Maximum Permitted Deliverability Overrun Level" shall be defined as the lesser of the aggregate of all User's available withdrawal rates at that Transco LNG Storage Facility; or a rate that can be offered due to maintenance, other works or of which the Transco LNG Storage Facility is otherwise capable.
- 7.2.3 The "User Permitted Deliverability Overrun" shall be calculated as the User's implied withdrawal rate minus the User's available withdrawal rate at the relevant Transco LNG Storage Facility, except where the aggregate exceeds the Maximum Permitted Deliverability Overrun Level, when 7.2.5 shall apply.
- 7.2.4 Where in any hour a User makes a User Permitted Deliverability Overrun, the User shall pay a charge for each kWh of the User Permitted Deliverability Overrun (the "Permitted Deliverability Overrun Charge") to Transco LNG Storage.
- 7.2.5 Subject to the provisions of paragraph 6, where for any hour within the Gas Flow Day, the Maximum Permitted Deliverability Overrun Level is exceeded, each User Permitted Deliverability Overrun will be adjusted such that each of the following conditions is satisfied:
 - (a) the aggregate implied withdrawal rate for all Users (pursuant to Storage Withdrawal Nominations or Storage Renominations in respect of such Storage Withdrawal Nominations) at that Transco LNG Storage Facility is equal to the Maximum Permitted Deliverability Overrun Level; and
 - (b) a User Permitted Deliverability Overrun is not less than zero; and
 - (c) the revised Users' Permitted Deliverability Overruns shall be in the same proportion to the User's Available Storage Deliverability but not greater than the User Permitted Deliverability Overrun before adjustment.
- 7.2.6 A User shall be notified of any modified Maximum Permitted Deliverability Overrun Level, as stated in 7.2.5, not later than 30 minutes before the relevant hour.
- 7.2.7 A User may request that its Storage Nomination Quantity be curtailed so that the User does not overrun beyond the User Permitted Deliverability Overrun.
- 7.2.8 Subject to paragraph 7.2.7, where a User submits a Storage Withdrawal Nomination (or any Storage Renomination of such Storage Withdrawal Nomination), which would result in a Storage Overrun Charge in accordance with 7.1.1 (d), Transco LNG Storage will use reasonable endeavours to adjust the User's Storage Withdrawal Nomination (or any Storage Renomination of such Storage Withdrawal Nomination) in order to allow the User to avoid such a charge. A User shall be notified of any such adjustment, not later than 30 minutes before the relevant hour.

Amend the heading of paragraph 9.1 to read as follows:-

9.1 ~~Transco LNG Storage Credit Agreement~~General

Amend paragraphs 9.1.1 and 9.1.2 to read as follows:-

- 9.1.1 ~~A User may not use a Transco LNG Storage Facility unless it is party to a credit agreement (a "Transco LNG Storage Credit Agreement") with Transco LNG Storage. Transco will, in accordance with the TLNGS Credit Rules, determine and assign to each User a Storage Credit Limit, and will keep each User informed of its Storage Credit Limit (as revised in accordance with TLNGS Credit Rules) for the time being.~~
- 9.1.2 ~~For the purposes of this Section Z, a Transco LNG Storage Credit Agreement shall set out the terms and conditions relating to the calculation of a User's Storage Indebtedness, the requirements as regards the provision by a User of security to Transco LNG Storage and the calculation and revision of a User's Storage Credit Limit and for the purposes of this paragraph 9 a User's "Storage Indebtedness" and "Storage Credit Limit" shall have the meaning given to such terms in the Transco LNG Storage Credit Agreement to which it and Transco LNG Storage are a party. The "TLNGS Credit Rules" are the rules from time to time established and revised by Transco LNG Storage and issued to Users setting out (inter alia):~~
- ~~(a) the principles on which Transco LNG Storage will assess and from time to time revise (in accordance with the TLNGS Credit Rules) its assessment of the credit-worthiness of Users (and persons providing surety for Users) and establish Storage Credit Limits;~~
 - ~~(b) the basis on which a User may (with a view to increasing its Storage Credit Limit) provide surety or security for Storage Indebtedness, or (with a view to reducing its Storage Indebtedness) make prepayments to Transco LNG Storage;~~
 - ~~(c) procedures by which a User may discuss its Storage Credit Limit with Transco LNG Storage.~~

Insert the following as new paragraphs 9.1.3 and 9.1.4:-

- 9.1.3 The TLNGS Credit Rules do not form a part of the Code and (but without prejudice to the further provisions of this paragraph or to anything done pursuant to the TLNGS Credit Rules) nothing in the Code shall make compliance with such rules an obligation of Transco LNG Storage or Users.
- 9.1.4 Nothing in the Code or the TLNGS Credit Rules shall constitute any duty of care or other obligation on the part of Transco LNG Storage (whether to or for the benefit of the User in question or Users in general) in relation to the implementation of the Storage Credit Rules or the provisions of this paragraph 9.
- 9.1.5 For the purposes of this paragraph 9:
- (a) "Storage Credit Limit" is means an amount representing a User's maximum permitted Storage Indebtedness;
 - (b) "Storage Indebtedness" is
 - (i) the aggregate amount for which the User is at any time liable to Transco LNG Storage pursuant to this Section Z, any Long Term Storage Arrangement and any Tanker Filling Arrangement determined on the basis of amounts accrued and irrespective of whether such amounts have been invoiced or (where invoiced) have become due for payment; less
 - (ii) any amount which has been paid to Transco LNG Storage by the User by way of prepayment, on the basis that Transco LNG Storage may apply such amount without the User's consent in or towards payment of amounts referred to in paragraph (i), and which has not yet been so applied; less
 - (iii) the amount of any invoices which are the subject of a bona fide dispute by the User in accordance with the terms of this Section Z, any Long Term Storage Arrangement and any Tanker Filling Arrangement;

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
NT & T

Date: