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Shippers, Transco and other interested parties

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29 August 2003

Dear Colleague,

**Modification Proposal 608 – “Amendments to LNG Services from 2003/04”**

Ofgem has considered the issues raised in network code modification proposal 608 - “Amendments to LNG Services from 2003/04” - and has decided to direct Transco to implement the modification because we believe that it better facilitates the relevant objectives of Transco’s network code. In this letter, we explain the background to the modification proposal, the nature of the proposal and give the reasons for our decision.

**Background to the proposal**

At present, while LNG deliverability rights are defined separately, the associated injection and space capacity rights are not and are instead bundled together. Prior to the 2003/04 LNG storage auctions, Transco put forward modification proposal 608 - “Amendments to LNG Services from 2003/04”. This proposal sought to introduce separately defined LNG injection rights but this time with an associated injection overrun regime to be referenced in the network code.

It was not possible to make a decision on this modification proposal ahead of the 2003/04 LNG storage year. Transco therefore put the proposal out for a further consultation period so that views could be expressed as to the possible introduction of these changes mid-way through the new storage year.

**The modification proposal**

The proposal is that:

- A user would be allocated separate injection rights when it purchased a bundled unit of capacity, in order to facilitate trading of injection capacity between users.

- The injection period would run from 1 May to the later of (a) 31 October and (b) the first day after 31 October on which the User had filled its space booking or had not nominated to the extent of its full available injection rate.
- The injection nomination time would be defined as 15.30 fifteen days maximum prior to the gas flow day to which the nomination relates. Transco LNG Storage (TLNGS) would notify shorter lead times to users on a daily basis, where operations permit.
- Planned injection maintenance days, currently unlimited, would be limited to fifteen days within a firm injection period.
- TLNGS would be permitted to cancel injection nominations but would be required to pay injection cancellation compensation if nominations were cancelled for more than fifteen days. This compensation would be calculated as the facility injection charge rate multiplied by the quantity of a customer's firm injection that had been cancelled for each hour on the day of cancellation.
- If cancellation of injection nominations resulted in a user being unable to fill its space booking by 1 November, then the user would be entitled to cancel a proportion of its capacity booking.
- A user would be permitted to nominate greater than its injection rate but would incur an injectability overrun charge. Access to "unused" injectability capacity would be on an interruptible basis and TLNGS could interrupt such injection without charge or other liability in the event that this was required. The injection overrun charging methodology would be defined within the network code.

### **Respondents' views**

There were two responses to this proposal when it was first put out for consultation. One respondent was in favour of the proposal. It viewed the proposal as improving customer service, increasing facility utilisation and providing a means whereby users could better value LNG services.

The other respondent was also in favour of many of the principles behind the modification although it had concerns regarding the complexity and other aspects of the proposal that would not allow it to support implementation of the proposal as currently drafted, eg. a potential top-up requirement in the event that a user was not able to fill its space booking by 1 November or the latitude given to TLNGS in deciding between keeping nominations whole or paying compensation. This respondent was the only one to comment during the further two week consultation process, stating that although its views had not changed, if the proposal were to be implemented, it recommended an implementation date of 1 April 2004.

### **Transco's View**

Transco argues that this modification would both improve the flexibility of services offered by TLNGS (and that as a result users would be better placed to attach a value to these services) and better facilitate the securing of effective competition between relevant shippers.

Transco also points out that under the present top-up financing arrangements, costs would not be borne by LNG users alone. As to the greater latitude given to TLNGS to choose between paying compensation and holding customers' nominations whole, Transco points out that this proposal enhances LNG users' rights as under the present network code, TLNGS has unlimited injection nomination cancellation rights with no compensation payments.

Transco also agrees with the respondent to the second consultation process that this proposal should not be introduced mid-way through this storage year, and as such Transco suggests an implementation date of 1 May 2004.

### **Ofgem's view**

Ofgem has previously welcomed the principle of the separate definition of injection rights as it would permit the trading of such rights and help increase facility utilisation. However, in August 2002, Ofgem rejected the last attempt to effect such a change (modification proposal 533 - *"Flexibility Improvements to LNG Injection and Capacity Trading"*) because of concerns that the injection overrun methodology was referenced in the Annual Storage Invitation and not the network code. As modification proposal 608 has addressed this concern, it is now possible to determine whether or the proposal better facilitates the relevant objectives.

As to the effective implementation date, Ofgem has sympathy with the view that it should be 1 April 2003 as this would provide a consistent injection regime for those users who might wish to begin injection ahead of the new storage year beginning 1 May 2003.

### **Ofgem's decision**

Ofgem has decided to direct Transco to implement the modification because we believe that the proposal will better facilitate the relevant objectives of Transco's network code. With regards to the effective implementation date, Transco has indicated to Ofgem that in line with the view expressed by one respondent, this will be 1 April 2004 (Transco had originally suggested 1 May 2004).

If you have any queries in relation to the issues raised in this letter, please contact me on the number above or Amrik Bal on 020 7901 7074.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kyran Hanks', followed by a long, sweeping horizontal line that extends across the width of the signature area.

Kyran Hanks  
**Director, Gas Trading Arrangements**