

Modification Report
LNG Withdrawal Ramp Rates
Modification Reference Number 0534
Version 1.0

This 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

It is proposed that changes in withdrawal nominations at Transco LNG facilities be subject to ramp rate restrictions. These restrictions would be based upon the physical ability of send-out plant at the LNG facility to accommodate changes of flow. Transco LNG would publish details of these ramp rates in its Annual Storage Invitation.

Transco LNG would have the right to reject any change in withdrawal nomination or if the change could be physically accommodated by the plant, it would reserve the right to make an overrun charge. Such overrun charges would also be published in the Annual Storage Invitation.

Implementation of this Modification Proposal would not affect the restrictions for output nominations as detailed in Section C of the Network Code and the Storage Operator would still be responsible for ensuring that the total quantity withdrawn was subject to the requirements of its Storage Connection Agreement including any ramp rate criteria.

2. Transco's Opinion

Transco believes that implementation of this Modification Proposal would lead to an improvement in the clarity of services offered by Transco LNG. This would in turn lead to Users improving their valuation of Transco LNG services and this would be reflected in the prices obtained in response to the Annual Storage Invitation.

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

By improving the definition of Transco LNG Services, Users would be better positioned to attach a value to these services. This improvement in information would influence the actions of potential storage users in the Annual Storage Invitation process and in their decisions on use of services provided by other parties. This would better facilitate the securing of 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 implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco is not aware of any further development, capital or operating costs that would arise from the implementation of this Modification Proposal.

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 intend to recover any development costs from Users.

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

Transco is not aware of any consequences that this proposal would have on price regulation.

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

This Modification Proposal would not affect Transco LNG's contractual risk under the Network Code.

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

Transco has already developed computer systems which have the flexibility of accommodating the proposed changes.

7. The implications of implementing the Modification Proposal for Users

Users would be offered a storage service better matched to the ability of storage plant to deliver changes in flow rate.

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

Users may wish to pass on any additional costs to Suppliers and Consumers.

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 unaware of any effect on the legislative and regulatory obligations and contractual relationships of Transco and each User and non-Network Code Party of implementing the Modification Proposal.

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

Advantage: Would reduce exposure to commercial risks from failure to flow for both Transco LNG and Users.

Disadvantage: The proposed regime would be more restrictive than present arrangements.

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

Representations were received from British Gas Trading (BGT) and Total Fina Elf Gas and Power (TFEGP). Both representations supported implementation of this Modification Proposal. The matters raised were as follows.

Clarity of Service Offered by Transco LNG

TFEGP pointed out that "Implementation of this proposal will help potential Users of LNG to determine the value of LNG services on offer at each location, and thereby inform bidding strategies for their procurement. We also believe that the introduction of this clarification will encourage the subsequent trading of LNG services." BGT agreed with Transco "that potential LNG storage users generally need clarity as to the operating rules before the LNG Annual Storage Invitation closes on 9 April, as changes such as this Modification proposes may influence the actions of potential storage users in the tender process and in their decisions on use of services available from other parties. BGT would therefore be grateful for an early decision from Ofgem on this Modification."

Transco's Response

Transco concurs with the view that a decision on implementation of this Modification Proposal prior to the Annual Storage Invitation would assist potential storage users in the decisions they make, including their bidding strategies.

Risk Exposure

BGT noted that "on the whole the relevant commercial risks are at present primarily faced by Transco LNG rather than by LNG Users". However BGT also highlighted the measures Transco LNG might take currently to mitigate these risks and concluded that "the Modification is designed to allow Transco LNG to avoid exposure in these areas without having to have recourse to conservative (and unhelpful) longer lead-times for re-nominations."

Transco's Response

Transco recognises that Transco LNG could manage its present risk exposure by setting cautious re-nomination lead times but doing so would not be in the interests of Users. It concurs with the view that implementation of this

Modification Proposal would give Transco LNG a more appropriate method of managing its commercial risk.

Ramp Factors

BGT stated that the legal text wording in respect to "ramp factors" did not reflect the intention of the Modification Proposal. BGT suggested that the legal text wording "must reflect that on the type of days where LNG withdrawals are altered late in the day, the stand-by position of some LNG plants may have been altered during the day, as a risk is detected that LNG withdrawals may be helpful and therefore, Transco LNG respond by advancing the plant to short stand-by status. It is thus very important that (assuming the principles of the Modification are accepted) the ramp factors are updated promptly so as to reflect the stand-by status of any plant at any time, to reflect at any time realistic estimates of the rates of turn-up likely to be achievable. Otherwise LNG users are exposed unnecessarily to the over-run and interruptible provisions and hence to unnecessary uncertainty."

Transco's Response

The revised legal text addresses the issue raised.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Transco does not believe that implementation of this Modification Proposal is required to enable Transco to facilitate compliance with safety or other legislation.

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 does not believe that implementation of this Modification Proposal is required in respect of any proposed change in the methodology established under the Standard Condition 4(5) of the statement; furnished by Transco under Standard Condition 4(1) of the Licence.

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

Transco is not aware of any programme of works that would be required as a consequence of implementing the Modification Proposal.

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

It is proposed that Transco LNG introduces withdrawal ramp rates, based on firm bookings, to the LNG Storage Service from 1 May 2002. Transco is not aware

of any systems changes that would be required as a result of this Modification Proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal be implemented with effect from 1 May 2002.

17. 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.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Legal Text

SECTION Z: TRANSCO LNG STORAGE FACILITIES

Amend paragraph 6.2.5 to read as follows:

“...:

- (a) the “**available withdrawal rate**” for any hour is the rate (in kWh/hour)
...:
 - (i) the Available Storage Deliverability divided by 24 and multiplied by the ramp factor for the hour in question; and
 - (ii) ...;
 - (1) the maximum permissible Nomination Quantity thereunder divided by 24 and multiplied by the ramp factor for the hour in question;
 - (2) ... until the end of the Gas Flow Day and multiplied by the ramp factor for the hour in question.
- (b) the “**implied withdrawal rate**” for any hour is the prevailing withdrawal rate for that hour plus ... the incremental withdrawal rate for that hour;
- (c) the “**prevailing withdrawal rate**” for the hour in question is:
 - (i) ... had made no Storage Withdrawal Nomination, zero) multiplied by the ramp rate for the hour in question and then multiplied by the implied withdrawal rate factor;
 - (ii) ...;

- (d) the “**incremental withdrawal rate**” for any hour is the rate . . . divided by the relevant period multiplied by the ramp factor for the hour in question and then multiplied by the implied withdrawal rate factor;
- (e) . . .;
- (f) the “**ramp factor**” for each hour in a Gas Flow Day shall be notified by Transco LNG Storage to Users no later than the time calculated as the start of the hour in question minus the withdrawal lead time for the hour in question, and shall be a factor of no less than 0 and no greater than 1; and
- (g) the “**implied withdrawal rate factor**” is the number of hours in the relevant period divided by the sum of the ramp factors in the relevant period.”

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0534**, version **1.0** dated **04/04/2002**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.