

TRANSCO WORKSTREAM REPORT
"Removal of Section Z and related Changes to the Network Code"
Version 1.0

This report was presented initially in verbal form at the May Modification Panel Meeting. The recommendations within it were confirmed at the June meeting of the PSS Workstream for presentation to the June Panel Meeting. Transco has recently received an indication from Ofgem that it intends to issue its Consultation Document during the week commencing 24 June 2002.

The PSS Workstream held on 14 May 2002 discussed the above Network Code Proposal in response to the referral made at the April Modification Panel Meeting.

Transco outlined the Proposal. To effect the separation of Transco LNG from Transco, amendments would be required to the Network Code, in particular to Section Z which details arrangements between Storage Operators and Transco. Other sections of the Network Code eg Defined Terms, would also require amendment and inclusion in Section R.

In order to provide further background detail, Transco LNG tabled and outlined the contents of a paper detailing the proposed assignments of LNG Storage Services Contracts. These would essentially replace the provisions of Section Z.

Ofgem advised that it anticipated issuing a consultation paper during the first two weeks in June that would seek views on the separation of Transco LNG from Transco. Responses would be invited within a period of 28 days. One particular area where views would be sought would be in respect of the removal of references to Transco LNG in the Code. Ofgem would expect to see much of Section Z incorporated into Standard Service Contracts and this followed precedents set by BG Storage, and latterly Dynegy. Views will be invited on what should be incorporated in the contracts.

Transco expressed its opinion that Modification Proposal 0548 was non-contentious and should be developed in parallel with Ofgem's consultation. The protection afforded customers and the industry under the Network Code would be transferred into contracts or redefined within the Code and therefore no further development was required by this Workstream.

The Workstream discussed previous experiences with storage separation and the time involved. The timetable for Operation Bluebird (Rough and Hornsea) stretched to almost one year and embraced Credit Arrangements, Standard Contracts and Operational Guidelines, together with Assurances provided from the Storage Operator to customers and the industry. Certain Transco LNG people present confirmed that they had been involved in Operation Bluebird and whilst implementation of Operation Bluebird had taken twelve months, believed that progress could be made much more quickly with Transco LNG. The Ofgem representative concurred that benefits of experience from Operation Bluebird would enable this issue to move at a faster pace.

Workstream members sought assurances that the Network Code would not be amended in such a way that their protection and method of recourse was removed, whilst awaiting LNG producing a

contract for post 2003. For example, concern had been expressed over credit issues relating to physical and virtual Storage Services and it was anticipated respondents to the consultation would seek some form of credit cover assurances from the parent company. There were issues in respect to security of the System which might lead to increase costs to the gas industry.

Transco referred to the wording in the Modification Proposal which anticipated these issues of assurance in suggesting that consultation on the Network Code Modification should proceed in parallel with the development of the Storage Services Contract.

As the Storage Services Contract would also be proceeding in parallel with Ofgem's consultation, the Workstream agreed to recommend to the May Modification Panel meeting that this Modification Proposal be issued for consultation.

The PSS Workstream therefore recommends that:

Modification Proposal 0548 should now proceed to consultation

The date for close-out of representations should be linked to that within the Ofgem Consultation Document.