

Modification Report
Top-up Manager's Methods For Accessing Storage Deliverability
Modification Reference Number 0497

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

Transco would be permitted to transfer Storage Deliverability between the Operating Margins and Top-up Manager accounts when this would reduce deliverability overruns for the transferee account, provided that the transferor account had not nominated against this deliverability (otherwise the transferor, having paid for Storage Deliverability, would pay again for overruns).

The Top-up Manager would no longer be required to book Storage Deliverability at least equal in aggregate to the shortfall of shippers' bookings below the Storage Deliverability Requirement. Instead, the Top-up Manager could book a lesser amount, with the objective of minimising expected storage charges. (Often, where the relevant Storage Operator offers bundled Storage Space and Storage Deliverability, the Top-up Manager might make a booking just sufficient to provide the requisite Storage Space.) However, the Top-up Manager would determine a Top-up Flow Rate Requirement for each Top-up Storage Facility, at least equal in aggregate to the shortfall of shippers' bookings below the Storage Deliverability Requirement. The Top-up Manager would need to be satisfied that sufficient physical deliverability would be available and could be accessed to provide the Top-up Flow Rate Requirement when shippers were also using their booked Storage Deliverabilities. Methods of accessing unbooked deliverability would include deliverability transfer from Operating Margins, and other services offered by the relevant Storage Operator such as shorter period (e.g. daily) deliverability, interruptible deliverability, and overruns.

Where the Top-up Flow Rate Requirement exceeded the Top-up Manager's Available Storage Deliverability at a Top-up Storage Facility, the Market Transaction Flow Rate Change (MTFRC) for the Top-up Market Offer would be based on the former, so as to ensure sufficient availability of Top-up gas even if less deliverability was booked than under current rules. As at present, the MTFRC would be reduced by the flow rate required for making any Residual Gas Transfers.

Any Top-up Storage Transfer of Storage Deliverability would reduce the Top-up Flow Rate Requirement at a Top-up Storage Facility, just as it reduces the Top-up Manager's Available Storage Deliverability, since a shipper would then hold this deliverability. Similarly, a further shipper booking of Storage Deliverability would also reduce the Top-up Flow Rate Requirement at a Top-

up Storage Facility (at present it only reduces the Top-up Manager's Available Storage Deliverability if the relevant Storage Terms allow the Top-up Manager to relinquish capacity). Where the Top-up Manager makes a re-determination in accordance with Section P2.8 (Revised Supply & Demand Estimates), Top-up Flow Rate Requirements would be adjusted accordingly, whatever the relevant Storage Terms provided for adjusting deliverability bookings.

2. Transco's Opinion

This proposal has the potential to achieve significant reductions in Top-up costs, by giving the Top-up Manager flexibility in contracting for storage services to similar to that enjoyed by other storage users. The Top-up Manager has a general duty to obtain the services it requires at least cost (Section P2.4.1(ii)) but the existing text does not reflect the variety of storage services now available. The Deliverability Requirement could, for example, be partially met by securing shorter period (e.g. daily) deliverability, interruptible deliverability, Operating Margins deliverability or deliverability overruns. These options could provide a more economic solution than the current method which acquires the entire Deliverability Requirement by bundled booking arrangements.

The proposal has been developed by a subgroup of the Planning & Security (including storage) Workstream with a remit to improve the effectiveness of the Top-up process. Transco fully supports this proposal as, in its opinion, it would better facilitate the efficient discharge of Transco's obligations under its Licence.

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

The proposal will provide the Top-up Manager with a range of options for contracting storage services, and allow procurement of storage services in the most cost-effective manner. This will better facilitate the "efficient and economic operation by the licensee", as stated in the Standard Condition 9 1 (a). The proposal will also better facilitate the "efficient discharge of its (Transco's) obligations under the licence" (Standard Condition 9 1(b)), in meeting peak aggregate daily demand as detailed in Standard Condition 16.

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 development and capital cost implications. However, it could be argued that the proposal could reduce the operating costs of Top-up.

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:

The proposal would make procurement of Top-up more efficient and economic, at no additional cost. Transco would therefore not be seeking to recover any costs as a consequence of implementing this proposal. However, Transco has raised a separate proposal 0472 to recover Top-up-related costs, and maintains that expenditure efficiently incurred on Top-up should be recovered from Users.

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

This proposal would not have any effect 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

Since Transco currently bears Top-up costs, the proposal would reduce financial risk to Transco. However, the risk to Transco LNG would increase as its revenue from Storage Capacity charges would reduce by an equal amount.

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

The Users could have more Storage Capacity available as a consequence of reduced Top-up booking by the Top-up Manager.

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

The Storage Operators could face reduction in revenues from reduced Storage Capacity booking by the Top-up Manager.

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

The proposal would not affect performance of obligations under the Safety Case.

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

Advantages

- Top-up Manager would have a range of options available to it for procuring Top-up services in an efficient manner.

- Availability of various Top-up options could help discover the relative value of these options.
- As a result of reduced Top-up booking by the Top-up Manager, the Users would potentially have more Storage Capacity available.

Disadvantages

- Storage Operators may reduce their capacity in future years, in response to reduced revenues / demand for their services; this could affect system security.

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 BGT and Scottish and Southern Energy (SSE). Both respondents support implementation of the Proposal.

BGT confirms its continued full support for the Proposal which it has expressed throughout the discussion and development phase at the Planning and Security Workstream. It comments that the Proposal was unanimously supported by shippers at the Workstream meetings.

BGT provides background to the Proposal, including Transco's Top-up requirements (255 GWh of deliverability and 507 GWh of space) and a shortfall in booked storage deliverability (207 GWh), all in LNG facilities, that Transco would need to make up. However a paper by Ofgem questioned the need to make up for the entire shortfall by booking additional deliverability, and suggested consideration of deliverability over-runs in determination of Operating Margins requirements. BGT states that Ofgem's suggested approach reduced the deliverability requirement to 102 GWh. BGT states that, according to Transco, the total cost of Top-up storage capacity and injection, estimated at £5.8m and later revised to £4m because of late capacity bookings by shippers, could reduce to "below £2m" as a result of implementing Ofgem's suggestion via this Proposal.

BGT believes that the Proposal would introduce a substantially more cost-efficient methodology for the procurement of Top-up storage capacity. It proposes that the changes should be implemented with effect from the 2001/02 Storage Year and that the revisions should apply to future years' Top-up capacity procurement.

BGT does not agree with Transco's second comment in section 4(c) of the report "Transco has raised a separate proposal 0472 to recover Top-up-related costs, and maintains that expenditure efficiently incurred on Top-up should be recovered from Users", and believes that this is an issue for Modification Proposal 0472 rather than this Proposal.

BGT feels that the proposed legal text is unacceptable due to an absence of clarity, and quotes two examples where this may cause a problem. Firstly, paragraphs P2.2.1 (vi)(c) and P2.2.5 are "square-bracketed" for no apparent reason, and secondly there is incorrect reference to a 'new' paragraph P2.2.5

(which already exists) as well as inconsistencies between on-line and hard copy versions of the Network Code. BGT feels that it would be more appropriate for Transco to release a revised version of the legal text for consultation before compiling the final report.

SSE supports implementation of the Proposal as it would give the Top-up Manager greater flexibility to contract Top-up requirements at minimum cost. It comments that this would benefit all Users, particularly in the event that Modification Proposal 0472 is implemented. SSE makes a general point regarding alternatives to Top-up and identifies these as gas from power stations, particularly self-interrupting firm loads, and reverse flow through the Interconnector. SSE would welcome moves by Transco to explore these alternatives, consistent with its economic purchase obligation.

Transco's Opinion:

Transco agrees with BGT and SSE that the Proposal would provide greater flexibility to Top-up Manager in contracting storage services and hence could lead to reductions in Top-up costs. Transco also agrees there is merit in exploring the potential for alternative means of meeting Top-up obligations within the constraint of Safety Case requirements.

Transco agrees with BGT that the recovery of Top-up costs is an issue that should be discussed under Modification Proposal 0472, and that there is no inter-dependency between the two Proposals.

With regard to the BGT's helpful comments on the draft legal text, Transco agrees that paragraphs P2.2.1 (vi)(c) and P2.2.5 (and P2.8.2) should not have any 'square-brackets'; Transco has subsequently revised the text to this effect. However, in terms of BGT's other comments on possible incorrect references and inconsistencies, Transco has re-examined the text and believes it is satisfactory and as intended.

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

Implementation is not required 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

Implementation is not required for these purposes.

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

No such works are required.

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

The proposal should be implemented as soon as possible so that it becomes effective in advance of the colder winter months.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of the proposal.

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

SECTION K: OPERATING MARGINS

Add new paragraph 3.9 to read as follows:

“Transfers of Storage Deliverability

For the purposes of avoiding or reducing the liability of a Relevant System Manager to pay Storage Overrun Charges under Section Z or equivalent charges under other Storage Terms in respect of the withdrawal of gas on any Day from a Storage Facility, Transco may on behalf of a Relevant System Manager make, subject to the relevant Storage Terms, a Storage Gas Transfer in favour of another Relevant System Manager.” 'Storage Gas Transfer' defined in Section R1.5(g) to include transfer of Storage Deliverability.

SECTION P: TOP-UP STORAGE

Amend paragraph 2.2.1 to read as follows:

“(ii)

- (iii) whether, and if so the amount (the “**aggregate top-up deliverability requirement**”) by which the sum of Allocated Storage Deliverability and top-up constrained deliverability is less than the Storage Deliverability Requirement;
- (iv) whether, and if so the amount (the “**aggregate top-up space requirement**”) by which the sum of Allocated Storage Space and the top-up constrained space requirement is less than the Storage Gas Requirement;
- (v) the:
 - (a) amount (the “**top-up space requirement**”) of Storage Space, ascertained in respect of each Storage Facility by allocating the aggregate top-up space requirement between Storage Facilities;
 - (b) amount (the “**top-up deliverability requirement**”) of Storage Deliverability in respect of each Storage Facility consistent with the top-up space requirement in respect of such facility and the relevant Storage Terms; and
 - (c) (the “**top-up flow rate requirement**”), being the amount of Storage Deliverability ascertained in respect of each Storage Facility which is not less than the top-up deliverability requirement in respect of such facility and which in aggregate for all Storage Facilities is not less than the aggregate top-up deliverability requirement,

in each case in accordance with the objective in paragraph 2.4, but subject to Transportation Constraints anticipated to affect the withdrawal of gas from any such facility;

- (vi) for each Storage Facility the sum:
- (a) (the “**Top-up Space Requirement**”) of the top-up constrained space requirement and the top-up space requirement;
 - (b) (the “**Top-up Deliverability Requirement**”) of the top-up constrained deliverability requirement and the top-up deliverability requirement;
and
 - (c) (the “**Deliverability Requirement**”) of the top-up constrained deliverability requirement and the top-up flow rate requirement.”

Add new paragraph 2.2.5 to read as follows:

“Following the time at which the Top-up Manager makes its initial determination in respect of a Storage Year under paragraph 2.2.1 or any redetermination under paragraph 2.2.3, where a User is registered as holding additional Storage Deliverability in a Storage Facility:

- (a) pursuant to an application to the relevant Storage Operator; or
- (b) following the surrender of Storage Deliverability by the Top-up Manager under paragraph 4,

the Deliverability Requirement in respect of the Storage Facility shall be reduced from such time by an amount equivalent to the additional Storage Deliverability registered as held by the User.”

Amend paragraph 2.4.1 to read as follows:

“in particular when making determinations under paragraph 2.2.1(iii) to (vi), allocate relevant requirements....

....

- (ii)(ascertained at the date of its application) and the making of Storage Gas Transfers (in accordance with Section K3.9).”

Amend paragraph 2.8.1 to read as follows:

“....

- (iv)with paragraph 2.9; and
- (v) the Top-up Manager will redetermine the top-up flow rate requirement for each Storage Facility subject to the relevant Storage Terms.

Amend paragraph 2.8.2 to read as follows:

“ ..Top-up Space Requirement, Top-up Deliverability Requirement and Deliverability Requirement in accordance with paragraph 2.8.1(b)(ii) or (as the case may be) 2.8.1(v), references in this Section P....”

Amend paragraph 5.2.4 to read as follows:

“(ii)

(a) without prejudice to paragraph (b), in respect of a Storage Facility;

(b) in respect of a Storage Facility in relation to which the Total Deliverability Requirement exceeds the Top-up Manager’s Available Storage Deliverability, the Total Deliverability Requirement;

(c) in respect of a Constrained Storage Facility,after the time referred to in paragraph (i);”

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

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 **0497**, version **1.0** dated **13/12/2001**) 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 appropriateprovided 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.