

MODIFICATION PROPOSAL

Short Title: Changes to System Entry Capacity Rules
Date: 13 March 1998
Proposed Implementation: Immediately
Status: Urgent

JUSTIFICATION:

If a shipper or other player (offshore player for instance) wishes to bring gas onto the system on one day at a terminal where it has no entry capacity it either has to buy a strip of annual capacity (if it has 4 days' notice), buy entry capacity from another shipper or pay overrun charges. If the secondary entry capacity market were liquid enough this would not present a problem. However, the secondary entry capacity market is not liquid and there are no measures in place to prevent hoarding of entry capacity. It should be noted that the simple fact that anyone can enter the system and incur overrun charges suggests there is usually excess capacity but only at monopoly rates, even on those days of under-usage. This effectively is a secondary market but controlled by a monopoly supplier rather than by supply and demand.

This problem has been recognised previously and there appears to be wide support for introducing the concept of interruptible entry capacity into the Network Code. Unfortunately it appears that discussions have been deadlocked for over 6 months and progress could take many more years. In the meantime the system continues to be utilised at below optimum levels and the whole gas market (both onshore and offshore) suffers from the artificial restrictions to bringing gas onto the system. We believe this change to be a crucial development towards a more efficient and economical pipeline system and market place.

For Urgency

Given that the community is concerned about introducing changes just prior to winter, urgent treatment of this modification would allow for implementation this summer. If this modification is not treated on an urgent basis then massive under-utilisation of the pipeline system could continue for many more months, and possibly a year. Urgent treatment could also benefit the energy balancing regime by bringing incremental (trapped) gas onto the system through shippers managing their balances (therefore reducing the need of increased gas through the flexibility mechanism) or through increased gas for flexibility bids. Urgent treatment of this modification would allow for assessment of its impact before more drastic changes are considered.

Consequence of not making this change:

Full beach deliverability will continue to be restricted from the market.

Area of Network Code concerned:

Section B

Nature of Proposal:

Because it is unlikely that an AT-Link related solution could be implemented in the time available we have suggested a very simple mechanism, as a first step, which could be expanded further if required. It is intended to increase the volume of entry capacity available on a day without huge implementation costs.

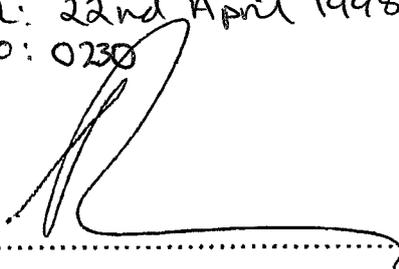
- At 13.30 D-1, Transco advises interested parties of the expected available entry capacity that day by terminal, based on usual demand/capacity usage ratios.
- Between 13.30 and 13.45 D-1, shippers fax Transco with bids to use the capacity with all relevant information, e.g. volume, flow rates and price.
- At 14.00 D-1, Transco chooses the best bids within the volume available and informs shippers of their likely capacity availability for D.
- Shippers that have bought the daily capacity understand that it is interruptible and that if annual capacity holders' nominations or renominations equal the physical capacity of the terminal then the interruptible user will be allocated a lesser volume of gas on a pro rata basis.
- Shippers have bought and will be responsible to pay for their allotted amount of capacity whether they use it or not (unless interrupted by firm holders).
- Transco should inform users if they are likely to be allocated less gas than nominated.
- Transco will hold an auction within-day if capacity is still available, using the same process as explained above.
- Transco will inform Ofgas of any user who holds a monopoly position of greater than 25% and does not appear to be using that capacity.

Purpose of Proposal:

To improve the efficacy of the secondary capacity trading market, thus lessening the ability to hoard entry capacity.

Proposer: Gary Cardone
 Position: Director and General Manager, Gas Trading
 Company: NGC UK Ltd.

Received: 22nd April 1998
 Mod No: 0230

Signed.....

Date...22/4/98.....