

Urgent Modification Proposal 0242/0242a

Special Storage Deliverability Services

25 September 1998

Present Position

A number of storage users believe that BG Storage's current range of services is inhibiting competition in the provision of peak gas, and that the range of services for storage deliverability from Rough and Hornsea should be extended. Although the Network Code allows BG Storage to offer new services, it does not compel them to do so. At present, there is no way of accessing unused deliverability at these facilities.

Proposal

Modification 0242¹ proposed that, in addition to the existing annual firm and space only services, BG Storage should be required to offer:

- all booked but unutilised deliverability - including that associated with the space only service - on an interruptible basis, both day ahead and within day, by auction (ie, "use-it-or-lose-it"). This 'tertiary' service would be interrupted before either of the existing annual services; and
- unsold deliverability on a daily firm basis.

It also proposed a reduction of storage deliverability overrun charges, replacing the present arrangement (whereby users are charged 150% of system marginal prices on the flexibility mechanism in winter, and 130% at other times of the year) with a multiplier of eight times the daily storage deliverability rate.

Modification proposal 0242a² proposed that:

- all unutilised deliverability at the Rough and Hornsea facilities would be made available on an interruptible basis within day (ie, "use-it-or-lose-it") by paying a new "low cost overrun" charge. This 'tertiary' service would be interrupted before either of the existing annual services.
- in the event that the total nominated withdrawal rate exceeded the physical site withdrawal rate then BG Storage would curtail nominations in proportion to total deliverability (available firm deliverability plus 1/50th of available space at Rough). If shippers failed to curtail their nominations as requested, the existing overrun charges would apply.

Possible Impact on Customers

¹ This modification was submitted by Enron on behalf of AGAS, Alliance Gas, Dynegy and Shell Direct as well as itself.

² This version of modification 0242a followed changes to the original modification proposal made pursuant to a meeting of the storage workstream on 11 August 1998.

There is no direct impact on customers. However, to the extent that these changes provide greater access to gas at peak times and reduce shippers' balancing costs, customers might benefit from lower gas prices.

Ofgas' Decision

Most shippers supported the revised modification 0242a since it did not introduce a new service whereby unsold deliverability was available on a daily firm basis and it represented a less complex method of introducing use-it-or-lose-it for storage deliverability for this coming winter. Ofgas has some reservations about this approach which are identified in the accompanying letter. However, Ofgas has approved modification 0242a as a means of getting a form of use-it-or-lose-it for the Rough and Hornsea facilities implemented by 1 October 1998.

Further Information

The Ofgas contact is Sarah Deasley on 0171-932-1658

The Enron contact is Doug Wood on 0171-316-5354

The BG Storage contact is Ian Hopkins on 0121-711-6252

Mod N° 242a

URGENT MODIFICATION PROPOSAL**Special Storage Deliverability Services (Alternative)****Date:** 28th July 1998**Proposed Implementation:** 1st October 1998**Justification:**

BG Storage supports the principles of Modification Proposal 242. However there are some aspects which require further consideration. Since shippers' proposals can only be accepted as they stand, or rejected, BG Storage is proposing this alternative to encourage debate and enable adjustments to be made if thought necessary.

Section R3.9 allows Special Storage Capacity to be offered which would conflict with interruptible deliverability held in connection with Rough space. BG Storage stated in its invitation to tender for annual services that any special Rough deliverability would be a tertiary service ranking after interruptible deliverability, and subsequently has been developing proposals following this principle. However it was always understood that late bookings of Rough firm deliverability or space could affect interruptible deliverability. The effect of daily firm deliverability on interruptible deliverability during the current Storage Year should be considered.

BG Storage would retain discretion whether to sell daily firm deliverability, but would have a strong incentive to maximise sales. Daily firm deliverability would only be withheld if it was likely to frustrate a sale of annual deliverability.

Prices for daily firm deliverability would be set through a pricing methodology change. (BG Storage's initial thinking is that Rough deliverability would be about 7p/pdTherm 3 weeks or longer before the gas flow day, increasing to 60 p/pdTherm close to the day when good demand forecasts are available, compared to the annual charge of £3.08/pdTherm.)

BG Storage is also taking this opportunity to add necessary detail to the original proposal, describing how overruns are allocated and incorporating necessary protection against aggregate nominations exceeding the physical capacity of the facility. The allocation method for overruns incentivises booking firm deliverability.

Consideration should be given as to whether there are too many methods of accessing deliverability, in particular should "Use-it-or-lose-it" be removed and overruns extended to booked but unused capacity.

Consequence of not making the change:

Rough and Hornsea deliverability would be less readily available.

Area of Network Code concerned:

Sections R6 and R7.1