

Modification Report
URGENT Modifications Reference Numbers 242 and 242a

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.2(a) Ofgas has agreed that these Modification Proposals should be treated as Urgent because they affect the forthcoming Winter.

2. Procedures Followed:

Transco agreed with Ofgas the following procedures for this Proposal:

Close out for representations:	5:00 pm Friday 28th August 1998
Final Modification Report to Ofgas:	Friday 4th September
Ofgas Decision:	Friday 11th September

In addition to the Network Code modification requirements, this report fulfills the requirements of Special Condition 4(2) in respect of a pricing methodology change.

3. The Modification Proposal:

The original proposal 242 requires BG Storage to offer:

- (a) Booked and unutilised deliverability, both day ahead and within-day, by auction (use-it-or-lose-it). This tertiary service would be interruptible, having a lower priority than the firm and space only services;
- (b) Unsold deliverability as a daily firm service;
- (c) Deliverability overruns at 8 times the daily rate; at Rough and Hornsea.

BG Storage was broadly supportive of these ideas and made the counter-proposal 242a to facilitate debate and development of the proposals, which contained the following points:

- (a) With effect from 1999/2000, interruptible (space only) deliverability would not be offered;
- (b) BG Storage could (but would not be required to) offer daily firm deliverability at Rough and Hornsea;
- (c) Deliverability booked on an annual or daily basis but unutilised at nomination time would be made available by auction. Subsequently any remaining capacity would be sold at the auction clearing price on a first-come first-served basis. This 'use-it-or-lose-it' capacity would be interruptible if holders of the unutilised firm deliverability subsequently re-nominated;
- (d) Deliverability overrun charges would be 8 times the daily rate for Rough firm deliverability and 30 times for Hornsea, subject to the availability of unbooked deliverability. If total nominations exceeded the deliverability of the facility, overrunning shippers would be asked to curtail their nominations. Holders of

firm deliverability would have priority over space only. Shippers who failed to curtail would incur overrun charges in accordance with modification 158. A special meeting of the Storage Workstream was held on 11th August to discuss proposals 242 and 242a and the following consensus was reached:

Network Code Change, as now proposed:

At both Rough and Hornsea, shippers could make nominations that implied withdrawal rates in excess of their total deliverability at the facility (available firm deliverability, plus, for Rough, 1/50th of available space) and a 'low-cost overrun charge' would be payable on the excess quantity.

However if the total nominated withdrawal rate at either facility exceeded the physical site withdrawal rate then shippers would be required to curtail their nominations. Their entitlement would be proportional to their total deliverability at the facility as defined above. (At Rough, if this curtailment was insufficient, interruptible deliverability held in connection with annual space bookings would then be scaled back.)

If shippers failed to curtail their nominations as requested, the existing, modification 158 overrun charges would apply.

Pricing Methodology Change, as now proposed:

BG Storage proposed that 'low-cost overruns charges' would be calculated for both Rough and Hornsea for 1998/9 by applying the following divisors to the annual Rough firm deliverability charge (10.5 p/pdkWh):

	<u>Divisor</u>	<u>p/kWh</u>	<u>approx. p/therm</u>
June, July, August, September	368	0.0286	0.84
April, May, October, November	184	0.0571	1.67
December, January, February, March	92	0.1141	3.34

The rationale behind the divisors is shown on page 3 of the attachment to Martin Kinoulty's letter "Special Storage Capacity and the Daily Auction" dated 29th June 1998. For the purpose of low-cost overrun charges, BG Storage believes the divisors should be fixed, rather than vary with storage bookings.

These proposed Network Code and Pricing Methodology changes together constitute a package which Ofgas should approve (or not veto) together, if thought fit.

4. Transco's opinion:

BG Storage considers that the revised, consensus Network Code and Pricing Methodology proposals for 1998/9 as agreed at the meeting of 11th August should be implemented.

5. **Extent to which the proposed modification would better facilitate the relevant objectives:**

The revised proposals (together with the related pricing methodology change proposal) would make Rough and Hornsea deliverability more readily available, enhancing utilisation and hence promoting efficient use of these facilities.

6. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System and any BG Storage Facility:**
Utilisation of Rough and Hornsea is likely to be higher than otherwise.

b) **development and capital cost and operating cost implications:**
Rough and Hornsea operating costs (both withdrawal and injection) are likely to increase.

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:**
BG Storage will recover additional operating costs through the relevant commodity charges.

d) **analysis of the consequences (if any) this proposal would have on price regulation:**
Overrun charges are likely to provide modest additional revenues.

Additional usage will increase operating costs, but no compensatory increase in the BG Storage revenue cap is proposed, and therefore BG Storage's profitability could be reduced.

7. **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:**

In the event that Rough or Hornsea nominations exceed the capability of the facility, and BG Storage fails to issue a curtailment notice, it may be unable to balance and be cashed out at SMP, while charging the overrunning shippers a much lower rate.

8. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

BG Storage will need to develop appropriate PC-based systems to calculate curtailment, and will need to establish notification arrangements for curtailment. BG Storage's billing system will also need development work, to distinguish the 'low-cost' and 'modification 158' overruns.

9. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Shippers will have access to any unutilised deliverability at Rough and Hornsea on attractive terms, and without needing to plan their requirements. Unlike capacity, charges will only be payable when the facility is used.

10. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

Implementation would make storage more competitive with other peak supply options.

11. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

None.

12. **Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:**

Advantages:

- (i) Rough and Hornsea deliverability can be accessed more flexibly;
- (ii) Utilisation of these facilities will tend to increase (when economic);

Disadvantages:

- (i) BG Storage and its customers will need to manage curtailment. This will occur relatively rarely, but on days that are already 'difficult', and possibly several times per day as holders of annual capacity renominate.

13. **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 15 shippers.

Low-cost overruns

Of these, 13 expressed varying degrees of support (ranging from enthusiasm to reluctant acceptance) for 'low-cost overruns'. Three saw this as a short-term compromise for 1998/9. Two favoured the multiplier of 8: one believed a lower multiplier would undermine annual services, the other may not be aware of the revised proposals of 11th August. One said low-cost overruns should only apply to capacity booked but unused (all Rough and Hornsea deliverability is in fact booked on a firm or interruptible basis for 1998/9).

Two shippers opposed low-cost overruns; one of these preferred a daily auction (but does not say whether low-cost overruns should be accepted as second best), the other

is opposed to making deliverability available on a daily basis by any method as this undermines annual bookings.

As regards curtailment rules, two shippers specifically favour rights being proportional to firm plus interruptible (Rough space only) annual deliverability and one says rights should be proportional to space.

Daily firm capacity

Six shippers commented. All oppose introduction in 1998/9 on the grounds that this would undermine annual bookings, particularly Rough 'space only' interruptible deliverability. Three say it could be introduced next year provided this was known at the time of the annual tender, two believe it should not.

Daily auction

Five shippers supported introduction of a daily auction, one thought it wise to wait and gain from Transco's experience with entry capacity, and two rejected the concept. Two shippers said if there was an auction there should be a reserve price, one explicitly stated there should be no reserve. One shipper said only unbooked capacity should be auctioned.

Rough interruptible 'space only' deliverability

Two shippers said interruptible deliverability at Rough should be retained beyond the current year.

Communications and practicalities

Four shippers stressed the need for adequate communication arrangements, another was concerned about the practicalities of 'use-it-or-lose-it', and another thought the alternatives to low-cost overruns were impractical.

Transco Response:

BG Storage welcomes the high level of interest in these proposals. There is solid support for the immediate introduction of low-cost overruns with the prices BG Storage proposes. Views on other aspects of the proposals are varied, most shippers believing (as in proposal 242) that several methods of making deliverability available could co-exist; therefore accepting low-cost overruns would not preclude the adoption of additional methods later. As regards curtailment rules, BG Storage originally proposed giving priority to holders of firm deliverability, but has compromised by now giving equal priority to firm and interruptible (Rough space only) deliverability, and believes this rule should be adopted.

BG Storage would also draw Ofgas' attention to the consensus at the meeting of 11th August, in sharp contrast to the previous meeting.

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

Not required for these purposes.

15. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

Implementation of 'low-cost overruns' in the Code is necessary in order to introduce the pricing methodology change proposed by BG Storage at the Storage Workstream meeting of 11th August (and shortly thereafter communicated to shippers in writing).

16. **Programme of works required as a consequence of implementing the Modification Proposal:**

See 8. above.

17. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**

The proposed implementation date is 1st October 1998.

18. **Recommendation concerning implementation of the Modification Proposal:**

BG Storage recommends that the revised proposal of 11th August for 'low-cost overruns' should be implemented, together with the associated pricing methodology proposals.

19. **Restrictive Trade Practices Act:**

If implemented the revised proposal will constitute an amendment to the Network Code. Accordingly this proposal is subject to the Suspense Clause set out in the attached Annex.

20. **Transco's Proposal:**

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

21. **Text provided pursuant to Rule 9:**

Section R

1.9.2

Add references to Low Cost Overrun Charges and Standard Cost Overrun Charges to the end of paragraph 1.9.2.

Delete existing 6.1.2 and replace with :

6.1.2

- (a) The User may not withdraw a quantity of gas on a Day which exceeds the User's gas-in-storage.
 - (b) Subject to paragraph 6.2, the User may not withdraw gas at a rate in excess of its available withdrawal rate.
-

Delete existing 6.2.3 and replace with :

6.2.3

- (a) Where a User makes a relevant Nomination in respect of which the implied withdrawal rate is greater than the available withdrawal rate , regardless of whether it is less than the prevailing withdrawal rate , the User shall pay a Low Cost Overrun Charge in accordance with paragraph 7.1.6 calculated on the amount by which the implied withdrawal rate exceeds the available withdrawal rate multiplied by the relevant period. In a curtailment period the User shall pay a Low Cost Overrun Charge in accordance with paragraph 7.1.6 calculated on the amount by which the curtailment rate exceeds the available withdrawal rate multiplied by the time of the curtailment period during which such excess prevails.
- (b) Where a User makes a relevant Nomination during a curtailment period in respect of which the implied withdrawal rate is reduced below the available withdrawal rate then the Low Cost Overrun Charge shall cease for the duration of such reduction provided that any such reduction shall not be treated as reducing any Low Cost Overrun Charge already incurred.
- (c) If at any time for any reason (including as a result of a relevant Nomination or by reason of plant failure, maintenance, repair or otherwise) the Storage Operator determines that the maximum physical withdrawal rate at which gas can be withdrawn from a Storage Facility is less than the aggregate of all Users' implied withdrawal rates at that Storage Facility then the Storage Operator shall give a notice to all Users of that Storage Facility requiring Users not to exceed the curtailment percentage during the curtailment period.
- (d) The curtailment percentage shall be calculated in accordance with the following provisions of this paragraph :
 - (i) The implied withdrawal rates of excess Users with the highest percentages of implied withdrawal rate to available withdrawal rate (calculated at the time the Storage Operator gives notice under paragraph 6.2.3 (c)) will be curtailed in accordance with paragraph 6.2.3(d)(ii) until the total amount of all implied withdrawal rates at the Storage Facility in question after curtailment is equal to the maximum physical withdrawal rate determined by the Storage Operator under paragraph 6.2.3 (c).

(ii) Curtailment shall be applied such that the curtailment rates for all curtailed Users after curtailment are in the same percentage to their available withdrawal rates, and that percentage shall constitute the curtailment percentage for all Users at the Storage Facility during the curtailment period.

(e) A curtailed User's Renomination shall take effect from the time specified in the notice given by the Storage Operator under paragraph 6.2.3(c) provided that the Storage Operator shall give no less notice than the withdrawal lead time for the Storage Facility in question.

(f) If a curtailed User then fails to make a Renomination at or below its curtailment rate for the curtailment period it shall pay a Standard Cost Overrun Charge in accordance with paragraph 7.1.7 calculated on the amount by which the implied withdrawal rate of the curtailed User exceeds the curtailed rate multiplied by the time of the curtailment period during which such excess prevails.

(g) During a curtailment period no User shall make an increased relevant Nomination in excess of its curtailment rate and if it does so then it shall pay a Standard Cost Overrun Charge in accordance with paragraph 7.1.7 on the amount of the excess multiplied by the time of the curtailment period during which such excess prevails provided that 1. a User may increase up to its available withdrawal rate without incurring a Low Cost Overrun Charge or a Standard Cost Overrun Charge and 2. a User may increase up to its curtailment rate and shall pay a Low Cost Overrun Charge in accordance with paragraph 7.1.6 calculated on the amount by which the increase exceeds the available withdrawal rate multiplied by the time of the curtailment period during which such excess prevails.

(h) The curtailment rate shall not be less than a User's available withdrawal rate. Where the Storage Operator has determined that the curtailment rate for all Users is to be curtailed down to the available withdrawal rate then the provisions of paragraph 6.4.6 shall apply.

(i) The foregoing provisions of this paragraph 6.2.3 shall not apply to the LNG Facilities. In the case of an LNG Facility where a User makes a relevant Nomination in respect of which the implied withdrawal rate is greater than the available withdrawal rate, regardless of whether it is less than the prevailing withdrawal rate, the User shall pay a Standard Cost Overrun Charge in accordance with paragraph 7.1.7 calculated on the amount by which the implied withdrawal rate exceeds the available withdrawal rate multiplied by the relevant period, which for the purposes of this paragraph shall be deemed to continue through any curtailment period.

(j) In circumstances where a User is liable to pay a Standard Cost Overrun Charge under paragraphs 6.2.3 (f) or 6.2.3 (i) it shall in addition pay any Storage Management Charge which may be payable in accordance with paragraph 7.3.

6.2.5

Amend the existing definitions as follows :

(e) the “**relevant period**” is the period in hours calculated from the time when the relevant Nomination becomes effective, or a curtailment period terminates (and is not immediately followed by the commencement of another curtailment period), and continues until either 1. the time when a further relevant Nomination becomes effective, or 2. the commencement of a curtailment period, or 3. the end of the Gas Flow Day, whichever shall occur first. For the purposes of calculating the relevant period, a relevant Nomination shall become effective at the time the nomination is made or the Flexibility Bid is accepted plus the withdrawal lead time prevailing at such time or (in the case of the a Flexibility Bid for System Entry Buy) the flexibility lead time if longer.

Insert the following as additional definitions :

(f) an “**excess User**” shall mean any User whose implied withdrawal rate for the Storage Facility in question is in excess of its available withdrawal rate at the time that the Storage Operator gives a notice under paragraph 6.2.3 (c).

(g) the “**curtailment percentage**” is the amount expressed as a percentage by which a User’s implied withdrawal rate must not exceed its available withdrawal rate during a curtailment period, as determined in accordance with paragraph 6.2.3 (d).

(h) the “**curtailment rate**” is the rate for each User calculated by applying the curtailment percentage to the User’s available withdrawal rate and adding the resulting amount to the User’s available withdrawal rate.

(i) a “**curtailed User**” means any excess User who is curtailed under paragraph 6.2.3 (d) (ii).

(j) the “**curtailment period**” is the period in hours starting from the time determined in paragraph 6.2.3 (e) until either 1. the commencement of a further curtailment period, or 2. the time specified by the Storage Operator or 3. the end of the Gas Flow Day whichever shall occur first.

Delete existing paragraph 7.1.1 (b)(i) and renumber 7.1.(b)(ii) as 7.1.1(b). Change references to in 7.1.2 and 7.1.4 from 7.1.1(b)(ii) to 7.1.1(b).

Delete existing paragraph 7.1.1(d), and paragraphs 7.1.2 (c) and (d)

Delete existing paragraph 7.1.3 and replace with :

7.1.3

Storage Overrun Charges, Low Cost Overrun Charges and Standard Cost Overrun Charges will each be invoiced and payable in accordance with Section S.

Insert new paragraphs 7.1.6 and 7.1.7

7.1.6

Low Cost Overrun Charges shall be calculated at the rates stated in the Annual Storage Invitation.

For the Storage Year 1998/1999 the Low Cost Overrun Charge shall be calculated at the following rates :

	p/kWh
June, July, August, September	0.0286
April, May, October, November	0.0571
December, January, February, March	0.1141

7.1.7

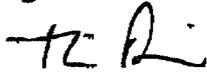
The Standard Cost Overrun Charge shall be calculated as follows :

(i) where the overrun occurs during the Winter Period, at a rate equal to the greater of 150% of the System Marginal Buy Price for the storage overrun day in question or 0.5 pence per KWh;

(ii) where (i) does not apply, at a rate equal to the greater of 130% of the System Marginal Buy Price for the storage overrun day in question or 0.5 pence per KWh.

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 28.9.98

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference 242/242a, version 1.2 dated 28/09/98) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Name: NICK FINCHAM
Position: DIRECTOR, SUPPLY REGULATION

Date: 28-9-98

The Network Code is hereby modified, with effect from 1st October 1998, in accordance with the proposal as set out in this Modification Report, version 1.2.

Signature:

Process Manager - Network Code
Transco

Date:

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause:

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:
- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.