

98/12/03/01

MODIFICATION PROPOSAL

Title: Low Cost Overruns For LNG**Date:** 1st December 1998**Proposed Implementation:** 1st January 1999**Type:** URGENT**Justification:**

This proposal is Urgent since LNG is most likely to be used at high rates in the December to March period. However it is hoped the extension of existing rules for Rough and Hornsea to LNG will prove uncontroversial.

Nature and Purpose of Modification Proposal:**Network Code Change**

Following the recent approval and implementation of proposal 242a i.e. low cost overruns for Rough and Hornsea, the overrun regime for LNG has been reconsidered. The same arguments for optimising utilisation by ensuring capacity is available at reasonable cost apply. Furthermore, the ratio of Space to Deliverability (the Storage Duration) of registered capacity is fixed at 5 for LNG, so customers are unable to tailor Deliverability to their individual requirements, whereas Rough and Hornsea offer a range of Storage Durations and Rough also offers a Space Only service.

BG Storage therefore proposes that low cost overruns, currently available for Rough and Hornsea, be extended to LNG, i.e.:

For LNG withdrawals at rates in excess of a customer's available withdrawal rate, a "Low Cost Overrun Charge" would be payable on the excess quantity, rather than the Standard Cost Overrun Charge now payable (typically 150% of SMPbuy).

In the event of the total nominated withdrawal rate for a storage facility exceeding the physical site withdrawal capability, BG Storage would give notice (equal to the current nomination lead time) to customers to curtail their overruns, allowed overruns (if any) being proportional to available deliverability. To the extent customers failed to comply, Standard Cost Overrun Charges would be payable.

Pricing Methodology Change

The price of low cost overruns for all LNG sites would be as already agreed for Rough and Hornsea for 1998/9 i.e.

	<u>p/kWh</u>	<u>(p/therm)</u>
June, July, August, September	0.0286	(0.84)
April, May, October, November	0.0571	(1.67)
December, January, February, March	0.1141	(3.34)

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This would avoid any false incentives to overrun at one facility rather than another. Whereas Rough and Hornsea are to be removed from the Code from 1999/2000, these prices would continue to apply to LNG unless a further Pricing Methodology Change was agreed.

Furthering Relevant Objectives

The proposal is intended to enhance utilisation of LNG deliverability, facilitating daily balancing by shippers and Transco's balancing of the System and hence the "efficient and economic operation of the pipeline system".

Consequence of not making the change:

LNG deliverability would be less readily available.

Area of Network Code concerned:

Sections R6.2 and R7.1

Company: BG Storage
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