



Modification Proposal 304

Low Cost OVERRUNS for LNG

15 January 1999

Present Position

A shipper wishing to withdraw gas in excess of its booked capacity at a LNG storage site is liable to pay storage 'overrun charges'. The storage overrun charge at LNG sites is set at 150% of system marginal prices on the flexibility mechanism in winter, and 130% at other times of the year. Cheaper overruns are available at Rough and Hornsea.

A shipper wishing to bring gas from a LNG facility into the pipeline system must also arrange to hold transportation capacity. The shipper can either buy capacity from Transco in 12 month tranches; pay transportation overrun charges; or it can buy from another shipper capacity that has been booked but is currently not being used.

Last September, modification 273 introduced a daily auction of transportation entry capacity at entry terminals. This included the Rough and Hornsea storage facilities but did not include the LNG storage facilities. BG's rationale for not extending the auction to LNG entry points was that lower cost storage overruns were not available at those sites.

Proposal

Modification 242a introduced lower storage overrun charges at the Rough and Hornsea facilities last September. However, this modification did not apply to LNG sites, where the above charges remained in force. Modification proposal 304 would introduce these lower cost storage overrun charges at LNG sites. Under the proposal, the price of storage overruns at all LNG sites would be the same as the prices at Rough and Hornsea.

In view of the proposal to introduce low cost storage overruns at LNG sites, BG Storage proposes also extending the daily auctions of transportation entry capacity to the entry points at LNG storage facilities.

As at Rough and Hornsea, there would be a daily capacity service and a secondary capacity service. The former relates to physically available but unbooked transportation entry capacity. The buyers of this capacity would have the same rights as annual firm entry capacity holders, and the floor price for such capacity would be four times the applicable LNG entry point's daily rate. The secondary service deals in that capacity which has been booked by a shipper but is not being used. Should the original holder's level of renominations mean that access to that capacity is required, it could be withdrawn from any secondary purchaser.

Possible Impact on Customers

This modification is intended to address concerns in the industry about the ease with which short term capacity can be accessed. If implemented, the modification might facilitate an increase in the amount of gas flowing into the system from LNG storage sites. This would be important in reducing the cost incurred in system balancing, both at the industry and shipper level. It would be up to shippers to pass on to customers the benefits that would accrue from a more flexible regime in respect of storage withdrawal and transportation entry capacity at LNG sites.

Further Information

Ofgas decided on 5 January 1999 that this modification should be considered by the industry on an urgent basis. The deadline for responses to Transco is 19 January 1999.

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