Final Modification Report
Modification Reference Number 304

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal:

BG Storage proposed a Network Code modification and a Pricing Methodology change:

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 five 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 SMP buy).

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.

Modification 273 introduced two new entry capacity services (Daily and Secondary System Entry Capacities) for all points save LNG. At the time there were concerns about the practicalities of implementation, and LNG overruns were considered unlikely, due to the high charges, so it was thought that daily entry capacities would not be particularly useful. With low cost LNG overruns, this will change, and therefore modification 273 should be extended to LNG entry points. This would remove an anomaly and make entry capacity services consistent across all entry points.

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.

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

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

2. **Transco's opinion:**

Transco supports the extension of existing Rough and Hornsea rules to LNG. Transco continues to believe that the introduction via modification 273 of Daily and Secondary System Entry Capacities was "a significant improvement in the definition of capacity services and a positive development of the capacity regime." At that time the future extension of these services to LNG was contemplated; it is now appropriate to carry this out, as this facilitates access to a new storage service, and also removes an anomaly from transportation entry services. The pricing methodology used for the services introduced by modification 273 was the subject of PC 36. This proposal applies this methodology to additional Entry Points throughout the Network Code. Therefore a pricing methodology change is not required.

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

The proposal would facilitate the "efficient and economic operation" of the system (which includes LNG facilities) by making storage deliverability and corresponding transportation capacity more readily available, which is likely to improve utilisation.

It may help "the securing of effective competition between relevant shippers and relevant suppliers" by setting a bench-mark for storage deliverability trades.

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

a) **implications for the operation of the System:**
Improved access to LNG should facilitate System balancing.

b) **development and capital cost and operating cost implications:**
Transco is not aware of any cost implications

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:**
Transoc is not aware of any need to recover costs.

d) **analysis of the consequences (if any) this proposal would have on price regulation:**

Transco is not aware of any consequences.

5. **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:**

There is no contractual risk to Transco under the Network Code as modified by the Modification Proposal.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Users:**

Minor changes only to BG Storage PC-based systems are required to extend the existing Rough and Hornsea functionality to LNG facilities.

7. **The implications of implementing the Modification Proposal for Users:**

Shippers will have access through the Modification 0273 process to any unutilised deliverability at LNG facilities on the same terms as other System Entry Points, and without needing to plan their requirements. Unlike booked annual capacity, charges will only be payable when the service is used.

8. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators, suppliers, producers and, any Non-Network Code Party:**

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

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

None.

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

Advantages:
(i) LNG deliverability can be accessed more flexibly;
(ii) Utilisation of these facilities will tend to increase (when economic);
(iii) Consistency with arrangements at other Entry Points.

Disadvantages:
(i) BG Storage will need to manage curtailment, which happens already at Rough and Hornsea. This will happen only rarely, but on peak days that are already 'difficult', and possibly several times per day as holders of annual capacity renominate. Consequently, there is an increased workload for BG Storage.

11. 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: Shell Gas Direct Limited, Total, Southern Electric Gas, British Gas Trading and The Gas Light & Coke Company.

Shell Gas Direct Limited, Total and Southern Electric Gas supported the proposal, citing consistency with Rough and Hornsea, and/or the need to prevent capacity hoarding.

British Gas Trading opposed implementation before 1st May, arguing that storage rules should not be changed during the Storage Year.

The Gas Light & Coke Company was opposed in principle, alleging that holders of space but not deliverability would not be treated equitably.

Shippers made two other comments:
(i) How will negative entry prices for constrained LNG be accommodated?
(ii) What effect will limited demand for entry services have on the operation of daily entry capacity auctions?

Transco Response:

Considering the small number of customers for LNG, there is a reasonable level of support for the proposal.

Transco agrees that it may be undesirable for changes to be made during the Storage Year that lead to deterioration of the service to any customer, but believes that the changes in this case are entirely beneficial; similar changes have already been made to Rough and Hornsea services within-year.

There are two circumstances in which customers hold space but not deliverability:
(a) Where they bought a standard firm service and traded away their deliverability; these customers will still have access to low-cost overruns, although, having no available deliverability, they will be curtailed first;
(b) The Glenmavis tanker-filling service, for which BG Storage does not intend to allow delivery into the NTS via low-cost overruns, as this would allow NTS delivery at lower cost than via the standard LNG service.

For constrained LNG where the price of annual entry capacity is negative, shippers will continue to book annual Entry Capacity equal to their deliverability booking, and hence receive a rebate that reflects the transmission support they provide. The prevailing pricing methodology specifies the reserve price for the auction of Daily System Entry Capacity as four times the daily rate for annual capacity. However in this case, this would result in a negative Constrained LNG reserve price, which may result in a further, unintended, rebate. Therefore for 'the avoidance of doubt' for the purposes of the Constrained LNG reserve price, the price of annual capacity will also be deemed to be zero; hence applying the established multiplier of four, the reserve price will be zero. The Transportation Statement will be amended accordingly, and no special provision is required in the Network Code.

Transco acknowledges there may be few bidders for the daily entry capacities, but this is also potentially the case at other entry points. Transco would expect all parties to wish to review the operation of the daily capacity services in the light of experience, including the impact of limited demand where that has been seen in practice.

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

Not required for these purposes.

13. 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:

The implementation of low cost overruns in the Network Code has no affect on charging methodology. The methodology applied to Entry Capacity services has previously been consulted upon and agreed. Therefore the extension of these services to LNG sites requires no further changes.

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

See 6. above.

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

The proposed implementation date is 1st February 1999.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends 'low-cost overruns' should be extended from Rough and Hornsea, and the associated pricing methodology change (same prices as for Rough and Hornsea) should be approved.

Transco supports the extension of daily capacity services (as introduced by modification 273) to LNG Entry Points.

17. **Restrictive Trade Practices Act:**

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

18. **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.

19. **Text:**

SECTION R

R6.2.3(i) Delete.

R 6.2.3(j) Delete the reference to paragraph 6.2.3(i). Renumber as 6.2.3(i).

Section B

B2.2.1 Delete the phrase "and except in respect of LNG Facilities,".

Note: If this proposal is implemented, the text for modification proposal 310 will need to be revised accordingly.

Signed for and on behalf of Transco.

Signature:

Tim Davis

Tim Davis
Manager, Network Code

Date: 1/2/99

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 304, version 1.1 dated 29/1/99 be made as a modification to the Network Code.

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

Signature:

Director of Transportation Regulation

Date:

The Network Code is hereby modified, with effect from , in accordance with the proposal as set out in this Modification Report, version 1.1.

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.