

Modification Report
URGENT Modification Reference Number 0308
Measures to Cater for Possible Terminal Constraints at St. Fergus

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgas has agreed that this Modification Proposal should be treated as Urgent. The Urgency is due to the forthcoming expiry of modifications 265a and 271 on 18th December 98

2. Procedures followed

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal;

14/12/98 :	Modification Proposal Received
15/12/98 :	Ofgas agreed Proposal as Urgent
17/12/98 (Midday):	Close Out for Shipper Representations
17/12/98 :	Final Modification Report to Ofgas
18/12/98 :	Final Ofgas decision expected.

3. The Modification Proposal:

‘This Proposal would apply the principles of Modifications 265a, 277 and 271 on days where Nominations at D-1 exceed Available Physical Capacity. However, contrary to the current rules under Modification 271, the concept of a day ahead trigger would be introduced to define whether or not the terminal is constrained. The proposal would also allow Secondary Capacity to be made available if the terminal is constrained, which is not currently offered under Modification 271.

This new Proposal would apply only at the St. Fergus Terminal and would continue to apply until an alternative regime is introduced, as presently being discussed as part of the BC99 project. An alternative proposal, 307, has also been raised to put forward a longer term solution with rules consistent across all terminals.

Specifically the Proposal would work as follows (where drafting is required to be changed this fact is highlighted next to the action);

11:00 - 13:00 D-1 Shippers make Daily/Secondary Capacity bids under Modification 273 *(no change)*.

13:30 D-1 Demand forecast completed by Transco *(no change)*

13:30 - 14:00 Physical Capacity Availability calculated under Modification 273 for all terminals *(no change)*.

14:30 St. Fergus scaling factor issued under Modification 271 *(no change)*.

Where the scaling factor would be >1 Modification 273 applies *(amendment to Modification 271 drafting)*

Where the scaling factor is <1 Modification 271, 265a and 277 applies and Secondary Capacity only is offered (as appropriate) under Modification 273 *(amendment to Modification 265a, 271 and 277 drafting)*.

15:00 Transco identify Daily and Secondary Entry Capacity

Transco accept bids and notify result at 15:00

16:00 Transco receive Input nominations *(no change)*

17:00-18:00 Transco compare Nominations (AT-Link) with Physical Available Capacity and 'bumps' Secondary Capacity in accordance with Modification 273 *(no change)*.

Effectively the 265a and 277 elements of the Proposal will reduce the price spikes as a result of constrained sells and sub-sequential buy backs and reduce extreme Flexibility Mechanism prices as a result of negatively priced bids.

On days when Transco is not able to make available that capacity which might reasonably be expected for the prevailing conditions of demand and supply pattern then the provisions of sections I3.7 and I3.8 (unless modified by any subsequent related Network Code modifications) will apply.

The Modification 271 element of the Proposal will discourage flows and subsequent allocations higher than Capacity (booked Annually or bid for Daily) entitlements by applying a multiplier of eight to the overrun charge on days of constraints.

This Proposal would require the existing drafting of Modification 271 to be restructured and for a trigger to be defined and introduced to apply to 265a, 277 and 273 (Secondary Capacity).'

4. **Transco's opinion:**

The measures introduced by Modifications 265a, 271 and 277 have proved effective in reducing the Balancing and Neutrality Costs incurred as a result of the constraints at St. Fergus. Modification 308 provides an extension of these measures. Proposal 308 also maximises capacity availability on days where nominations are lower than capacity and has the benefit of defining a trigger to the rules as opposed to defining the terminal as restricted every day.

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

Implementation of this proposal will reduce the costs to the industry associated with the constraints at St. Fergus. This will help maintain effective competition between Shippers by reducing the financial impact of the neutrality costs. In turn this should lead to a more economic and efficient operation of the system.

The measures will provide a continued incentive for Shippers to nominate within the available physical capacity and will maximise availability of Secondary capacity, therefore promoting an efficient and economic usage of all available capacity.

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

a) **implications for the operation of the System:**

Implementation of this proposal should result in delivery nominations at St. Fergus being kept within physical NTS Capacity on a day, and therefore there will be a reduction in the requirement for flexibility system sells at the terminal.

b) **development and capital cost and operating cost implications:**

There are no development, capital cost or operating cost implications known.

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:**

Not applicable

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

No consequences known.

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:**

As the Proposal is largely to extend current Network Code provisions, which expire on 18th December, there will be no increase in the level of contractual risk to Transco.

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

As the Proposal is largely to extend current Network Code provisions, no further development implications for the computer systems of Transco and Users are known.

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

The Proposal is largely an extension to current Network Code provisions under modification 271 and 265a, which would otherwise expire on 18th December 98. However, contrary to the current rules, a day ahead trigger will define whether the terminal is restricted.

Users may need to modify their nomination processes to monitor whether the St. Fergus terminal has been defined as restricted or not. However, implementation of the proposal should continue to help to avoid excessive levels of neutrality charges.

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

As the Proposal is largely to extend current Network Code provisions there will be no additional implications for terminal operators, suppliers, producers or any Non-Network Code Party other than those already being incurred.

11. **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:**

Transco is not aware of any consequences.

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

The advantages and disadvantages of this proposal have previously been highlighted in Reports for Modification 265a, 271 and 288.

To restate these are :

‘Advantages

All Shippers should continue to see reduced neutrality costs.
The risk of negative priced flexibility prices will be removed.
Cash out prices should not be unduly influenced.
Provides greater certainty of gas flows and capacity rights
Disincentivises nominations above Available Restricted Capacity.
Allows Secondary Capacity to be made available on days when the terminal is constrained.

Disadvantages

Artificially restricts market prices for flexibility bids
Arbitrary method of allocating capacity rights
Potentially causes Shipper issues with take or pay contracts above Available Restricted Capacity.’

In addition to the advantages and disadvantages above Transco is also of the opinion that the Proposal will be a better solution than a simple extension to Proposals 265a, 271 and 277 because of the day ahead trigger of when the terminal is Restricted.

13. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):

Nine Shippers were in support of the Proposal and seven were against.

Chevron UK questioned the need for the Modification to continue until the end of the 98/99 gas year.

Shell UK and Shell Gas Direct indicated that they would also wish to see Transco sharing the burden for liabilities.

BP Gas expressed concern over the lack of information regarding the lifting of the current constraints.

BGT questioned the need to introduce the complexity of providing the facility for Secondary Capacity to continue to be made available on days of Restricted Capacity.

Mobil Gas Marketing made the comment that implementation of the Proposal would lead to Shippers being unable to meet take or pay commitments.

Conoco expressed disappointment that the Proposal did not also address the issues of Capacity refunds and liabilities.

Accord Energy whilst supporting the Proposal suggested that Proposals regarding constraints should be time limited and did not agree with a long extension. Accord also requested that there be an opportunity in early January for an informed debate on the issues.

Amerada Hess supported the Proposal and highlighted the consistency between 271, 288 and Proposal 308.

Total Gas Marketing supported the Proposal as a means of containing adverse energy balancing costs at constrained terminals.

United Gas Services expressed concern that the Proposal would still allow Shippers to overnominate and cause a constraint.

Enron supported the Proposal but for consistency argued that the Proposal should also be extended to cater for the Barrow Terminal.

Scottish Hydro expressed disappointment at the lack of information regarding liability Modification Proposals.

Transco Response:

Transco support Shippers comments that this Proposal should also be extended to cater for constraints at other Terminals. Transco has raised Modification Proposal 307 which would apply the same rules as 308 to all Terminals on days where Restrictions apply. Ofgas determined that Proposal 307 was not Urgent and therefore, because circumstances mean there is a possibility that restrictions will continue to exist at St. Fergus, Proposal 308 was raised dealing specifically with St. Fergus.

Regarding the addition of Secondary Capacity to the Proposal, Transco agree that there may not always be Secondary Capacity available at St. Fergus. However, it is expected that actual flows will be lower than physical capacity, and hence Secondary Capacity should be made available where possible.

Transco supports Accords request for a further opportunity to debate the issues around constraints and potential solutions. Transco have discussed constraints with Shippers at the Capacity Workstream and operational guidelines meetings. There will be a specific agenda item at the next Capacity workstream (7th Jan 99) to facilitate the debate of recent Modifications and Modification Proposals.

Regarding the availability of information regarding constraints Transco is reviewing the information on the Shipper Information System daily in addition to updates at forums such as the operational guidelines meetings and Workstreams.

Copy of text from SIS (16th December 1998)

'SHIPPER INFORMATION SERVICE

The test runs at Bishops Auckland Compressor Station have been completed and the site is now in operational use. Work is continuing on the power mapping of Wooler

Compressor Stations to enable the site to work in conjunction with Bishops Auckland. Power mapping of Aberdeen is likely to continue to the end of the week.

On completion of the commissioning programme for the Compressor Stations the pipeline pressure raising exercises will be undertaken. Initially this will concentrate on the pipelines downstream of Bishop Auckland Compressor Station, and is scheduled to commence during week commencing 21st December 1998.

The constraint level at St. Fergus Terminal is to be raised to 105 mcmd on Thursday with national demand levels typically around 310 mcmd. When Aberdeen Compressor Station is fully available the input capacity at St. Fergus is anticipated to be in excess of 110 mcmd.

Further updates will be provided on SIS on a regular basis.

If you require any further information please contact Paul Green on 01455 892693 or Andy Barwick on 01455 892290.

Last Updated 16th December 1998'

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

Transco does not believe this proposal is necessary to facilitate compliance with either safety or other legislation.

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:

Transco does not believe that implementation is required as a result of a methodology change.

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

Implementation of this proposal will continue to be done manually. A Programme of works is not required.

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

Transco recommends that this proposal is implemented with effect from 19th December 1998.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends that this Modification Proposal is implemented. However, Transco have already proposed a similar Modification, 0307, to apply at all terminals. Transco agree with Shippers' representations, and the views of the Modification Panel, that it is appropriate for Modification 0307 to be debated and developed by the Industry in order to provide an approach which is considered best able to cover the period before BC99 proposals are implemented. It is anticipated that the measures implemented by Modification 0307 will replace those in Modification 0308.

19. 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.

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:

TRANSITION DOCUMENT PART II

Paragraph 8

Delete paragraph 8.1.1.B

8.2.1. Replace "18th December 1998" with "30th September 1999".

8.4.2 In paragraph (1) replace "18th December 1998" with "30th September 1999".

Paragraph 10

Amend paragraph 10.1.a to read "a Restricted System Capacity Point is an Aggregate System Entry Point as specified in paragraph 10.2.b.".

Amend paragraph 10.1.b to read " the "Restricted Capacity Factor" in relation to an Aggregate System Entry Point for any Day is the lesser of one(1) and:"

Amend paragraph 10.2 to read

"10.2.a. This paragraph 10 shall apply in relation to each Aggregate System Entry Point specified in the table in paragraph 10.1 commencing on the 26th December 1998.

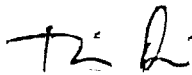
10.2.b The Aggregate System Entry point shall become a Restricted System Capacity Point when Transco undertakes a calculation of the Restricted Capacity Factor which results in a factor of less than one."

Amend paragraph 10.3 to read

"Transco shall by not later than 14:30 on the Preceding Day in respect of the Gas Flow Day undertake a calculation of the Restricted Capacity Factor in respect of the Aggregate System Entry Point specified in table and shall immediately notify all Users if the Aggregate System Entry Point has become a Restricted System Capacity Point."

Signed for and on behalf of Transco.

Signature:



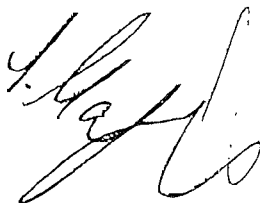
Tim Davis

Manager, Network Code

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 0308, version 1 dated 17 December 98) be made as a modification to the Network Code.

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

Signature:



Name:

Title:

Date:

TAHIR MAJID
MANAGER, GAS BALANCING
23/12/98

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

, in accordance with

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.