

MODIFICATION PROPOSAL

Title: Storage Unbundling

Date: 21st December 1998

Proposed Implementation Date: 1st May 1999

Type: Urgent

Justification of Urgency

Following Ofgas' investigation into storage, BG agreed undertakings with Ofgas which required inter alia full separation between the Transco and BG Storage businesses. Transco are bringing forward a separate proposal, which explains how the Code should be modified to set out (in a heavily revised Section R) Transco's terms for Storage Operators; in parallel Transco have produced a generic Storage Connection Agreement (SCA) and intend to negotiate individual SCA's for all Storage Connection Points, both for BG Storage facilities and for new entrants.

BG and Ofgas have also agreed that Rough and Hornsea should be removed from the ambit of the Transco PGT Licence and the capacity auctioned during a 5 year period. The Bluebird Project has just completed development of the contracts and process for this. Ofgas are now consulting on all these matters, following which they intend to reach a decision on 29th January 1999.

This proposal could not be finalised until consequential changes arising from the Rough and Hornsea contracts and from business separation had been identified. It must now proceed in step with Ofgas' consultation, so that Ofgas are in a position, if they see fit, to also accept this proposal (and the Transco proposal setting out terms for Storage Operators) at the same time. Otherwise a consistent contractual framework would not exist.

Nature and Purpose of Modification Proposal:

In principle BG Storage does not wish to change LNG services; this is consistent with Ofgas' intention to conduct a fundamental review of LNG in 1999.

However to accommodate the major changes referred to above, the Code requires significant restructuring. Since Section R is to contain Transco's terms for Storage Operators, the terms for BG Storage LNG services currently in Section R must be relocated to a new Section Z. Since Rough and Hornsea services will be governed by contracts outside the Code, references to Rough and Hornsea must be removed.

A number of minor amendments are required, arising from business separation and the restructuring of the Code:

1. BG Storage will have separate arrangements from Transco for billing and credit management, as set out in the draft Rough and Hornsea contract. These will be applied consistently across Rough, Hornsea and LNG services. These terms are broadly consistent with existing Transco arrangements. The triggers for credit management sanctions will be indebtedness to BG Storage reaching 85% and 100% of the credit limit agreed with BG Storage. The sanctions applied in relation to LNG services once these levels are reached are unchanged.
2. Subsection 9 (Storage Management) will be deleted, as these restrictions cannot sensibly be limited to LNG alone. Instead, BG Storage has explained its intentions in the "Future Operations" paper (and expects to give an undertaking to Ofgas regarding adherence thereto) as it is important for potential bidders in the Rough and Hornsea capacity auctions and buyers of LNG services to understand that BG Storage will not be competing with them in gas trading.
3. Transco's proposed terms for Storage Operators impose risks that do not currently exist on shippers using Storage Facilities: Transco may refuse to accept gas which does not meet the GM(S)R quality specification, and may levy failure-to-interrupt charges. BG Storage however proposes to make compensating changes to its terms, so that the LNG service is unaffected. Conversely, if gas for injection fails to meet the GM(S)R quality specification, then BG Storage can refuse to inject, or inject and recover from customers the costs of damage to its facilities, up to the amount they are entitled to recover from Transco.

Furthering Relevant Objectives:

Of itself, this proposal has no material effect on achievement of relevant objectives. However it is part of a package designed to:

- (a) facilitate competition in storage services, both between facility operators and between Rough and Hornsea firm capacity holders, and
- (b) enhance the availability and usage of Rough and Hornsea services.

Consequence of not making the change:

If Transco's proposal to facilitate competition in storage services is accepted, this proposal is necessary so that LNG services can continue to be offered. In any case, Rough and Hornsea services need to be removed for consistency with intended changes to BG's PGT Licence and so capacity rights can be auctioned using the separate Bluebird contract. Without this modification, business separation of BG Storage from Transco cannot be completed.

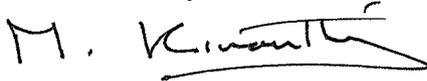
Area of Network Code concerned:

Those parts of the existing Section R relevant to BG Storage LNG services to be moved to a new Section Z and amended.

Company: BG Storage
Consort House
Princes Gate
6 Homer Road
Solihull
B91 3SA

Proposer: Martin Kinoulty

Signature:

A handwritten signature in black ink, appearing to read 'M. Kinoulty', written over a horizontal line.

Position: Director, Business Development

Proposer's Representative: Ian Hopkins

Ref: 0310