



15 March 1999

Direct Dial: 0171-932-1656
Our Ref : CMS/MOD/25 and 26

Mr Tim Davis
Manager, Network Code
Network Code Development
First Floor South
31 Homer Road
Solihull
West Midlands B91 3LT

Dear Mr Davis

Modification 310 (Storage Unbundling) and Modification 311 (Operational Use of Storage Post-Unbundling)

Thank you for sending to Ofgas the final versions of Transco's modification reports in respect of the above modification proposals. Ofgas considers that both of these proposals would facilitate the achievement of Transco's relevant objectives; in particular, that they would be likely to facilitate the efficient and economic operation of Transco's pipeline system, and the securing of effective competition between relevant shippers and between relevant suppliers. On that basis, we agree that the modification proposals should be implemented. A copy of the signed modification reports is enclosed.

Yours sincerely

A handwritten signature in dark ink, appearing to read "S. Aldridge".

Sean Aldridge
Head of Storage Regulation

Enc.



Decision Letter - Modification Proposal 310

Storage Unbundling

17 March 1999

Present Position

Following Ofgas' investigation into the supply of gas storage and related services, BG plc agreed a series of proposed undertakings as to the provision of storage services from 1 May 1999. One of these undertakings required a robust internal separation between BG plc's transportation and storage businesses.

In 1999 Ofgas will conduct a review of LNG services. Until that review is complete, Ofgas has accepted that BG Storage can manage those services, though these services will still be regulated by BG plc's Public Gas Transporter Licence and will still appear in Transco's network code.

Proposal

In order to take account of the major changes referred to above, BG plc proposed a significant restructuring of Transco's network code. In modification 310, BG plc proposed that the terms relating to LNG storage should be moved from section R to a new section of Transco's network code, section Z. BG plc stated that it did not seek fundamentally to alter the terms on which its LNG services were offered in advance of Ofgas' review of the LNG regime in 1999. The modification does, however, include some "minor amendments" as compared with the current section R, reflecting the separation of BG Storage and the restructuring of the code.

Following discussions with Ofgas, and in order not to prejudice Ofgas' forthcoming LNG review by offering capacity rights beyond the 1999/2000 storage year, the modification excludes pre-emption rights after the 1999/2000 storage year. However, the network code will retain an interim gas-in-store arrangement for the beginning of the 2000/2001 storage year.

Ofgas' Decision

Ofgas decided on 15 March 1999 that this modification should be implemented. We did so on the basis that the proposal would facilitate the achievement of Transco's relevant objectives; in particular, it should facilitate the efficient and economic operation of Transco's pipeline system, and secure effective competition between relevant shippers and between relevant suppliers.

Possible Impact on Customers

The modification should facilitate improvements in the economy and efficiency with which Transco operates its pipelines system and should secure effective competition between shippers. Therefore, the cost to shippers of meeting peak demand and balancing their portfolios should decrease.

Further Information

The Ofgas contact is Andy MacFaul on (0171) 932 1683
The BG Storage contact is Ian Hopkins on (0121) 711 6200