

**Final Modification Report**  
**Modification Reference Number 0311**

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

**1. The Modification Proposal:**

This Modification is intended to amend the terms by which Users and Storage Operators (SOs) at Storage Facilities interface with Transco. The Modification is necessary to allow new Storage Operators to connect to the Transco system and for both Users and Storage Operators at these facilities to have access to Network Code defined services on an equal basis to those available to BG Storage Facilities. The Modification also recognises that BG Storage and Transco are now separate business units, and, for the purposes of the Network Code, arrangements between Transco and BG Storage will be given effect as though each is a separate party.

**2. Transco's opinion:**

The modification should be implemented as per the attached legal drafting.

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

The proposed modification allows new Storage Operators to connect to the Transco System and provides the same contractual terms at all Storage Facilities for both BG Storage (BGS) and new Storage Operators. The proposed modification also recognises that not all Storage Operators or Users will require the same services at Storage Facilities and provides options where appropriate (for example the Storage Balancing Agreement). Implementation of this modification should, hence, facilitate competition in the Storage Market.

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

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

The operation of the System should not be materially affected by this modification.

There are however some potential effects:

modifications to the nominations at Storage Facilities may lead to Transco receiving less accurate information.

there should be more certainty that shippers will interrupt by the introduction of FTI charges.

Constrained LNG should be required less often because of the change to the demand threshold

there may be additional work associated with allocations

there may be additional requirements for manual work arounds for billing purposes.

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

The development costs will be those associated with connecting new facilities to the system and the introduction of Storage Connection Agreements (SCA) for both BGS and new Storage Operators

**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:**

With the exception of modifying AT Link, the costs are not expected to be material. Transco is proposing to make a cost reflective charge where Storage Operators take up AT Link services. Transco will not be seeking to recover other costs unless normally charged for at other connection points (cost of physical connection).

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

The charging for gas which is offtaken from the System at a Storage Connection Point (SCP) may require a pricing methodology change.

**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:**

Transco will be losing its preemption rights when booking Operating Margins at Rough and Hornsea for 1999/2000.

The proposed modification may reduce the level and accuracy of information given to Transco with respect to Storage Facilities.

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

The modifications may require up to 10 man years of work to modify AT Link to allow new Storage Operators to have the same AT Link functionality as BGS and to separate Storage functionality from Transco functionality. Transco has agreed to provide functionality that is designed specifically for Storage Operators on a menu basis with associated charges. Examples of such services are trading in store, inventory tracking etc.. Transco will be looking for some commitment from new Storage Operators that they have a requirement for these services before it commences development work.

Transco does not envisage there being any additional cost for Users in developing computer systems.

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

There may be additional operational administration in making nominations and renominations. When nominations to Transco are not passed to the Storage Operator a separate nomination will be required from the User to the Storage Operator.

There will be separate credit and security arrangements. This will require Users to provide the appropriate security to BG Storage and abide by BGS credit rules regardless of their conduct under the Transco rules.

BGS do not intend to use Transco billing services should the modification be implemented. Users will therefore receive separate invoices.

Transco is not aware of any significant increases in capital costs to Users because of changes to the Network Code or Storage terms.

Removal of terms relating to Rough and Hornsea from the Network Code will mean that Users will have bilateral contracts for services at these facilities as opposed to the Network Code which is a multi-lateral contract and constitutes part of Transco's licensed activities. There will be some additional protection for Users at these facilities as BGS have given legal undertakings to Ofgas. These fall away in 2003.

**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:**

The modification will allow new Storage Operators to connect to the system on a non-discriminatory basis with respect to other connected parties.

**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:**

There will be licence modifications to allow BG Storage to remove Rough and Hornsea from the Network Code. There will also be a licence modification to remove the obligations on the MD Transco for Storage matters.

The modification will require Storage Operators to have a Storage Connection Agreement.

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

The modification allows new Storage Operators to enter the market.

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

Responses were received from: BP Gas, BG Storage, BG Trading, Dynegy, HSE, Mobil Gas Marketing Ltd., Scottish and Southern Energy plc., Shell UK Ltd. and United Gas Services Ltd..

General comments: seven of the respondents supported the general principles of the modification proposal. Other respondents did not comment.

The numbering below is as per the attached legal text.

**1. General**

**1.2 Storage Facilities**

**Representations:**

Two respondents supported the definition in the legal text, and none objected. It was recognised that further modifications may be required in the event that a Storage Facility was developed which did not fall within this definition.

Four respondents agreed that commodity charges should be levied for gas offtaken from the System at Storage Connection Points (SCP), where such gas is not to be returned to the System. BGT said specifically that this should be the subject of a pricing methodology change. United Gas suggested that gas to storage should be uniquely metered and charges levied accordingly.

Three respondents stated that commodity charges should not apply to cushion gas.

**Transco's response:**

The definition currently allows the connection of a Storage Facility which has an associated supply point. Transco will develop specific rules to address such circumstances as and when required. Ofgas have indicated that the levying of commodity charges at SCPs would require a pricing methodology change.

**1.6 Simultaneous offtakes and deliveries**

**Representations:**

One respondent agreed with the default allocation in 1.6.2. BGT, however, suggested an alternative default allocation.

**Transco's response:**

It has been identified that the proposed allocation rules contained in 1.6.2 would not work. Therefore the allocation arrangement in E1.10 Combined entry and exit

quantities will be applied. The drafting allows for an alternative default allocation to be described in the Storage Connection Agreement (SCA).

## **1.7 BG Storage**

### **Representations:**

Two respondents supported the inclusion of an undertaking that Transco would give effect to the Network Code in relation to BGS as though BGS was a separate legal entity. They both, however, suggested additional wording.

### **Transco's response:**

The provision remains as drafted. Transco is required by the terms of the PGT Licence not to show undue discrimination. Transco believes this is adequate.

## **1.8 Transco as Storage User**

### **Representations:**

BGT supported limiting the purposes for which Transco can use storage, but suggested that it procure these services by open tender and long term contracts.

### **Transco response:**

The opening up of these services as described is not within the scope of this modification. The respondent's views have been referred to the chairman of the Planning and Security Workstream.

## **2.2 Storage Nomination Timetable**

### **Representations:**

Three respondents supported maintaining the present arrangements. One of these respondents suggested that this arrangement should be made available at other System points, in the event that allocation arrangements were offered more widely. One respondent disagreed with the current arrangements, and said that all storage nominations should close out at 1600 hours.

### **Transco's response:**

Transco proposes to change the storage nomination time to 1600 hours. This should not create undue burdens on Transco, or the Storage Operators, and may benefit shippers.

## **2.3 Storage Balancing Arrangement**

### **Representations:**

One respondent advocated the removal of the Storage Balancing Arrangement (SBA), as it gives BGS an unfair commercial advantage. This respondent however suggested that shipper(s) could act as a Storage Manager and receive tolerances etc.. Two respondents stated that the SBA should, in principle, be retained in its present form and made available to new Storage Operators.

BGT proposed that the SBA allocation should become the default allocation (rather than the final allocation) where a Storage Operator has elected to operate under the SBA rules. This would allow a 'CVA type' process. BGS support this view.

Tolerances - One respondent suggested that the ability to aggregate tolerances should be offered to all shippers.

Entry capacity - BGS said the requirement for the Storage Manager to book Entry Capacity at SCPs should be as per the current rules. Their argument for retaining the current rules is that by making nominations onto the System they merely divert flows of gas rather than create additional flow. This therefore does not require additional capacity. They also pointed out that they could achieve the same results by trading gas at the NBP, which would make the process more opaque. Shell stated that Storage Managers should be required to book entry capacity on the same basis as shippers.

Smearing charges - United Gas said that the Storage Managers should receive smearing charges on the same basis as shippers. Three respondents said that Storage Managers should not receive smearing charges, with one suggesting that this should be subject to the outcome of BC99.

### **Transco's response:**

The SBA rules, as currently applied to BGS, are being made available at new Storage Facilities. Transco propose to retain the current drafting, with the exception of the Entry Capacity. The clause excluding the Storage Operator from requiring Entry Capacity when it 'turns down nominations' has been removed. Transco is not proposing at this time to offer these arrangements at other System points. There have to date been no requests for such arrangements at other points, and the balancing and capacity regime is under review by BC99.

Transco has amended the legal drafting to provide for the SBA allocation being the default allocation.

## **2.4 1/24 Rule Relaxation**

### **Representations:**

Two respondents stated that SCPs should not face more onerous rules than other Entry/Exit points. Two respondents were in favour of the introduction of guaranteed profiling. Three respondents said that if there was a relaxation, they preferred the second alternative in 2.4.2.

One respondent said that the proposed profiling regime appeared to have been chosen arbitrarily and discriminated against new Storage Facilities. This respondent also advocated the introduction of charges for within day profiling at all Entry and Exit points, and that any revenues from such charges should be smeared back to the industry.

### **Transco response:**

By introducing a relaxation at SCPs for smaller facilities, Transco would, by implication, expect others to comply with the requirement to deliver gas at an even rate. As this may be seen as discriminating between SCPs and other Entry/Exit points, Transco has removed the 1/24 rule relaxation from the legal drafting.

## **3.1 NTS Exit Capacity**

### **Representations:**

Three respondents requested that Firm Exit Capacity be made available at SCPs. One respondent said that the development of such a regime should be dealt with by BC99. BGS said that Firm Exit Capacity was not required at SCPs.

BGT proposed that there should be a counter-seasonal regime for Firm Exit Capacity. However, United Gas opposes this drafting as it only benefits seasonal facilities.

### **Transco's response:**

Transco has contemplated Firm Exit Capacity in the legal drafting, and has acknowledged that it will develop detailed rules, if required.

Transco is prepared to further investigate counter-seasonal loads.

## **3.2 Interruption**

### **Representations:**

Two respondents said that interruption of gas flows should be fully-divisible and not based on tranches, pending the review of interruption services.

**Transco's response:**

Transco believes that interruption at SCPs should be based on the prevailing number of tranches defined in the Network Code. The important issue for Transco, from an operational point of view, is that where there are tranches there should be the same number at all points.

**3.3 Days of Interruption****Representations:**

Three respondents stated that the specific limitation on interruption at SCPs (not more than 15 days from May to October inclusive) should be retained.

**Transco's response:**

Transco believes that the present arrangement should be retained, and will consider extending it to other connected parties if it does not increase the cost of providing interruptible services.

**3.4 Failure to Interrupt****Representations:**

Four respondents said that the Storage Operator should bear any costs associated with Failure to Interrupt (FTI). It was also pointed out that the incentives on shippers would not be appropriate if they were applied directly to the Storage Operators. One respondent suggested a procedure to give effect to incentives directly with the Storage Operators. However, one respondent said that FTI charges should remain with the shippers.

**Transco's response:**

The FTI rules apply to the shippers at all other interruptible Exit Points, and therefore it would be inconsistent to apply different rules at SCPs. Also, any fundamental changes to the regime should be subject to the ongoing interruption review.

**4 Constrained Storage****Representations:**

One respondent said that potential Constrained LNG customers need to know Entry Capacity prices before booking and were concerned that Transco may change these prices from October. One respondent suggested that Transco published these prices before the annual storage auctions.



**Transco's response:**

Transco does not intend to change its current approach to publication of Entry Capacity prices. The situation is the same for shippers at other Entry Points who book Entry Capacity throughout the year on an annual basis.

**Section E Daily Quantities, Imbalance and Reconciliation****Representations:**

One respondent, in the absence of a definition of a Storage Manager, suggested their own definition which defines the benefits and constraints conferred by this role.

**Transco's response:**

The current drafting does not now contemplate a Storage Manager, but does recognise that Storage Operators may be a User. It is proposed that Storage Operators will not receive Balancing Neutrality charges, and as such they should not be allowed to make bids on the flexibility mechanism. Transco sees little value in introducing other constraints which it would subsequently find difficulty in policing. In the case of BGS, it has given undertakings in its "Future Operations" paper. These restrict the purposes for which they can trade gas. Transco believes that this is the appropriate approach.

**3.3.3 Section Q Emergencies****Representations:**

One respondent said that Storage Operators should (like Terminal Operators) not be required to deliver gas to the system in the event of a national emergency, and that Transco should obtain the rights it required from the shippers. One respondent stated the present arrangements should remain unchanged.

The HSE stated that it was unable to determine whether or not the proposed modification will maintain existing standards of safety during an emergency, and therefore required written confirmation from Transco and the National Emergency Coordinator (NEC) that standards will be maintained. In the absence of such confirmations, the HSE is unable to support the proposed modification to Section Q.

**Transco's response:**

Transco believes that the present drafting should remain unchanged, and will provide the necessary confirmations to the HSE.

## **Section V General**

### **Representations:**

One respondent said that there should not be separate credit and security arrangements for BGS and Transco. However, one respondent felt that there should be separate credit and security arrangements, but that the credit burden with Transco should be reduced such that the total credit burden remains the same.

### **Transco's response:**

Transco believes that separate credit and security arrangements are necessary to ensure that, from a compliance perspective, commercially sensitive information does not flow between Transco and BGS. There are currently rules within the Network Code for Users to apply for and have security refunded.

### **UK-Link Services:**

#### **Representations:**

BGT supports the Storage Workstream's proposal of a menu/tariff for UK-Link services to cover on an arm's-length basis the services required by BGS, so that BGS and other SOs can indicate which services are needed. BGT want BG plc to bear the transition costs of these AT-Link changes.

### **Transco's response:**

Transco agrees that the appropriate AT-Link services should be developed to support the new storage regime as proposed above.

### **Liabilities:**

#### **Representations:**

One respondent said that liabilities, including those relating to gas quality issues, should be resolved between the connected parties.

### **Transco's response:**

Transco believes that in order to be consistent with other System Points, the liability regime should remain as defined in the Network Code.

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

Implementation is not required to enable Transco to facilitate compliance with safety or other legislation.

**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 is not required having regard to any proposed charge in the methodology established under Standard Condition 3 (5).

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

See under 15.

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

The proposed implementation date is 1/5/99.

While AT Link developments are required the timetable for this is under review. It is anticipated that there will be a phased approach with the first changes being released in May/July. Some of the developments will be dependent upon a demand from Storage Operators.

**16. Recommendation concerning the implementation of the Modification Proposal:**

Transco recommends that the modification is implemented.

**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.

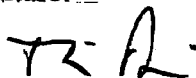
**19. Text:**

See attached legal text (document referenced '~~1624365.01~~').

162 4428.02

Signed for and on behalf of Transco.

Signature: \_\_



**Tim Davis**  
**Manager, Network Code**

Date: 12.3.99

**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 0310 version 1.1 dated 12/03/99 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**  
**HEAD OF STORAGE REGULATION**

Date: 15 MARCH 99

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: