

## **Modification Proposal 0311**

**Title:** Operational use of Storage Post Unbundling

**Date:** 21st December 1998

**Proposed Implementation:** 1st May 1999.

**Type:** Urgent

### **Justification of Urgency**

The Modification is an integral part of Project Bluebird and Ofgas has agreed with Transco that it is a requirement for the success of the auctions at Hornsea and Rough that the timetable for the consultation and decision on this Modification is the same as for Project Bluebird. Note: Project Bluebird is the project to deliver the agreement between BG plc and Ofgas, for the removal of storage terms for Rough and Hornsea from the Network Code and BG plc's PGT Licence and to auction the storage services from these facilities.

### **Nature and Purpose of 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.

The terms between BG Storage and its customers which are currently described in Section R of the Network Code will, for the purposes of LNG, be moved to a new section of the Network Code, and for the purposes of Rough and Hornsea, be subject to contracts outside the Network Code. These matters are addressed in Modification 0311.

This Modification proposes a new Section R which will deal with specific terms for Users at Storage Connection Points (SCP's) and for Storage Operators. The remainder of the Network Code will be amended to reflect the new Section R and to remove specific reference to BG Storage where appropriate. Section K will also be modified to reflect the fact that Transco no longer uses Balancing Margins. Section P is not amended as part of this proposal because it is intended that Top-up will be dealt with separately in line with BG plc's undertakings to Ofgas under project Bluebird.

A Storage Connection Agreement (SCA) has been developed by the Storage Workstream which is consistent with these terms.

The following commentary should be read in conjunction with the attached legal text.

## **SECTION R: STORAGE**

### **1.2 Storage Facilities**

**1.2.1** The term “Storage Facility” defines those facilities which are directly connected to the System, may contain indigenous gas, and whose principal purpose is the storage of gas. The definition allows for other connected parties to the Facility, such as a power station, but does not allow for other sources of gas, for example a production field. To allow for these, may require a pricing methodology change or further Modifications to ensure that transportation commodity charges are levied on gas which is offtaken and not returned to the System at Storage Connection Points. This is under consideration by Ofgas and Transco.

### **1.6 Simultaneous Offtakes and Deliveries.**

The drafting refers to the Network Code Section E1.10 ‘simultaneous offtakes and deliveries’, which has been developed for the Bacton Interconnector. The default allocation detailed in E1.10.4 has been replaced for storage purposes.

### **1.7 BG Storage**

**1.7.1:** This clause is to demonstrate Transco’s intent to enforce the terms of the Storage Connection Agreement in a manner which does not unduly favour BG Storage.

### **1.8 Transco as Storage User**

**1.8.1:** This clause is intended to state those purposes for which Transco may be a User and reflects Transco’s current requirements.

**1.8.2:** Transco is permitted if required, for operational purposes only, to have a preferential service at Storage Facilities (compared to other Storage Users). Any such variations in Storage Operators standard terms will be made public.

## **2. TERMS RELATING TO STORAGE FACILITIES**

### **2.1 Storage Nomination Arrangements**

The SCA may provide for Transco to inform the Storage Operator of Users' valid Transportation Nominations (or Renominations), in respect of an SCP (a "Storage Nomination Arrangement"). The SCA may also entitle the SO to decide if a Storage Nomination Arrangement applies, but this arrangement cannot be altered at intervals of less than six months.

This Nomination is no longer deemed as a Nomination to the SO. Therefore Transco assumes no obligation or liability for the actions of the SO on receipt of these Nominations.

Where a Storage Nomination Arrangement does not exist, Transco will not inform SOs of Users' Nominations.

For 'the avoidance of doubt' there is no requirement for a Storage User to be a Transco User.

## **2.2 Storage Nomination Timetable**

The Storage Nomination Timetable maintains the Storage Manager's additional 30 minutes to adjust its Nominations following the close of the Users Nomination Time (1530 hrs). The Storage Nomination Time allows for both Output Nominations and Input Nominations.

Ofgas has expressed concern that the additional 30 minutes at the Storage Connection Point may give a commercial advantage to the Storage Operator. Transco has therefore proposed Condition 7(4) approval be required for categories of Users, who may have access to this facility. Ofgas has indicated that the categories may be better placed in the Network Code.

## **2.3 Storage Balancing Arrangement (SBA)**

**2.3.1:** It is proposed that the SBA should continue to be offered in its current form and be available to all SOs. Under this arrangement, the SO (as a User) may keep other Users whole to their Nominations to Transco for Energy balancing purposes and take any swing on its Storage Manager account. The SO will continue to receive balancing and scheduling tolerances associated with the aggregate flow at the facility.

**2.3.2:** The election to have an SBA will be in the SCA, and it will be for Users to find out from the SO whether such an arrangement is in force.

**2.3.4:** Where the SO, acting as a User, does not make flexibility bids, it is proposed that it will not be subject to Energy Balancing Neutrality Charges. No other restrictions are proposed regarding a SOs ability to trade gas. It is anticipated that any restrictions will be contemplated in contracts between the SOs and their customers.

**2.3.5:** For the purpose of charging for overruns, it is proposed that these charges are based upon actual metered flows at the Storage Connection Point.

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

This provision allows limited profiling on Entry at Storage Connection Points. The levels for individual flows and the aggregate flow are set to minimise the physical impact on the Transco system. Transco has expressed its intent to charge for this service in the future.

## **3. OFFTAKE OF GAS AT STORAGE CONNECTION POINTS**

### **NTS Exit Capacity**

The current Network Code states that all SCP's are interruptible.

Ofgas have expressed the view that Firm Exit Capacity would be appropriate to ensure consistency with other Exit Points. Although the current Network Code rules contemplate firm capacity, there are no rules for its booking or use. Ofgas discuss this in their consultation paper on Project Bluebird.

Transco have agreed that the drafting can be amended, if required. The suggested rules for Firm Exit Capacity, based on a counter-seasonal load, are given in footnote 11 of the legal drafting.

### **3.2 Interruption; 3.3 Days of Interruption; 3.4 Failure to Interrupt**

The interruption rules are consistent with other Interruptible Exit Points. Transco proposes that it will inform both the SO and the Users' of Interruption. The responsibility for Interruption will be with the Users (Note: The Storage Users' terms may allow the SO to act on Transco's notification to the SO).

Failure to Interrupt (FTI) Charges will be applied as at other Exit Points i.e. to the Users.

The SCA will specify the appropriate size of Tranches as required.

Transco will Interrupt at a SCP on no more than 15 days in the summer period.

Note: The Storage Workstream suggested that the SO should be directly responsible for Interruption and that there should be appropriate FTI rules to facilitate this regime.

## **4. CONSTRAINED STORAGE**

The LNG Facilities for which BGS is the SO at Dynevor Arms, Avonmouth and the Isle of Grain are designated as 'Constrained Storage Facilities'.

The rules in this provision, which are fundamentally the same as those in the current Section R, are intended to apply only to the aforementioned Facilities. The rules do not allow Transco to oblige any new Storage Facilities to be designated a 'Constrained Storage Facility'. However, should a Storage Facility be situated in a constrained location, Transco would, in looking for the provision of transmission support services, consider all options (including new Storage Facilities) on a non-discriminatory basis.

Two specific changes have been made to this provision. Firstly, the point at which the trigger level of demand for the use of Constrained LNG is assessed, is to be moved from the LDZ to the NTS. This will better reflect the physical conditions that give a requirement for a Constrained LNG Renomination. Secondly, the level of demand below which Transco will renominate down Constrained LNG is to be increased from 85% to 90%, reducing usage.

## **STORAGE SEPARATION - OTHER MODIFICATIONS**

### **Section E Daily Quantities, Imbalance and Reconciliation**

**2.2.3 Entry Allocation Agents and 3.3.3 Exit Allocation Agents:** These provisions are to be deleted. However, both Rough/Hornsea and LNG may require BGS to be nominated as an Allocation Agent, and this would require a provision in Section Z and the Rough and Hornsea terms.

### **Section F System Clearing, Balancing Charges and Neutrality**

#### **4 Balancing Neutrality Charges**

**4.1.2:** Ofgas are considering whether it is appropriate that a Storage Operator should not receive Energy Balancing Neutrality charges.

### **Section K Operating Margins**

The Modifications to Section K are to ensure that Operating Margins (OMs) can be provided from all Storage Facilities, not only BGS.

The majority of the changes to Section K, however, relate to the deletion of Balancing Margins and Systems Margins (a collective term for Balancing Margins and Operating Margins).

It is proposed that Transco should lose its preemption rights over Users when booking OMs at Rough and Hornsea for 1999/2000 and at LNG sites for 2000/01.

TOTAL P. 01

**Section Q Emergencies**

Transco will retain the right to request flows directly from the Storage Operator in the event of an emergency.

**Section S Invoicing and Payment.**

The terms relating to Invoicing and Payment in Section S have been removed and put into Section Z, with equivalent terms placed in the Rough and Hornsea Storage Contracts.

**Section V General**

In regard to Credit and Security procedures, BGS and Transco are to have separate arrangements. BGS's arrangements will be contained in a separate document, a 'Security and Credit Agreement', which will be referred to in the LNG and Rough and Hornsea terms.

**Furthering Relevant Objectives:**

This proposal, in conjunction with Modification 0311 and Project Bluebird is intended to:

- (a) facilitate competition in storage services between BGS and new Storage Operators.
- (b) facilitate competition between Users of Storage Facilities in the provision of Storage Services.

**Consequence of not making the change:**

- 1. The business separation of BG Storage from Transco cannot be completed.
- 2. The Network Code would not be consistent in the terms offered to new Storage Operators and to BGS and could hence be a barrier to entry for new Storage Operators.

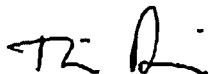
**Area of Network Code concerned:**

Primarily Section R and section K with various other changes as detailed in the attached drafting.

**Company:** Transco

**Proposer:** Tim Davis

**Signature:**



**Position:** Manager Network Code

**Proposer's Representative:** Chris Bradley