

Draft Modification Report
3rd Party Proposal: Storage Information at LNG Importation Facilities
Modification Reference Number 0104

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

Version 4.0 of the Proposal was as follows:

“This proposal seeks publication, on National Grid’s website by 16:00 D+1, of the aggregate physical LNG in storage levels (in kWh) of LNG Importation Facilities as being the stock held at 05:59 on the previous day. This information could be published through a workaround until an enduring system solution is developed. In general, National Grid is not obliged to publish or make available operational or market data where this is not made available to it.

It is very important that this data is published to the wider market, as improvements in transparency will assist in a number of ways, specifically, by allowing market participants to make more appropriate purchasing decisions based on fuller market information; by facilitating improvements in security of supply; and as a result of these outcomes, reducing the ultimate cost of gas to all consumers.

Information is vital for the effective functioning of an open and competitive market given the potential for continuing tight supply/demand conditions this coming winter. Consumers will also want to be as aware as possible of market conditions to determine if they can or wish to sell back gas or interrupt as part of demand side response, thereby enhancing security of supply.

The asymmetric nature of the data made available from LNG Importation Facilities means that market transparency is clouded. Importation Operators, through their contractual arrangements with shippers, should therefore, seek to meet the minimum requirements of the Guidelines for Good Practice for System Storage Operators for information provision (which includes published numerical data on gas in store).

Furthermore, in approving energywatch’s modification proposal UNC006, the Authority stated that “In order for the market to operate efficiently, it is important that the arrangements in place are as transparent as possible. At the moment, some parties (notably producers) have access to information, which other parties (notably downstream suppliers, traders and customers) do not have. By allowing all parties access to near to real time sub-terminal information this should permit the market to operate more efficiently.” (page 8). The provision of storage information at LNG Importation Facilities is no different in this respect and should improve transparency in the market, as supported by the Authority in the Proposal 006 decision.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Some attendees of the Transmission Workstream (7th September 2006) believed that implementation would not yield any useful information, which would change customer

behaviour. Since they anticipated no beneficial behavioural impact, they did not believe implementation could better facilitate the achievement of the Relevant Objectives. Other attendees believed implementation would improve the information available to the market and so implementation would lead to better informed decisions being taken and hence could better facilitate achievement of the relevant objectives. Potential impacts are:

A11.1 (a) the efficient and economical operation of the pipe-line system:

The Proposer suggested that implementation would provide Shippers with the appropriate level of information to enable them to better forecast demand and thus make appropriate trading decisions to balance their portfolio, with associated physical actions resulting in improved balance of the system as a whole.

A11.1 (c) the efficient discharge of the licensee's obligations under this licence:

With respect to security of supply, the Proposer suggested that implementation would assist Shippers in better forecasting demand, enabling them to make more efficient purchasing decisions, consequently reducing price volatility and facilitating security of supply.

BG Group has suggested that this statement was illogical "as knowing actual or potential supply cannot help shippers forecast demand, as demand is driven by factors different to, and separate from, those which influence supply. It is therefore not clear from the Mod, how the availability of such information would enable better forecasting of demand, despite requests at the Workstream for an explanation as to how this would work in practice."

Some Transmission Workstream attendees argued that changes to the commercial regime, including this Proposal, would increase the likelihood that deliveries of LNG would be sent to locations other than GB, and would reduce willingness to invest in facilities to enable the importation of gas to this country. Hence implementation could be expected to lead to higher gas prices and reduced security of supply.

A11.1 (d) the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers:

The Proposer suggested that implementation would provide a level playing field where all Shippers and Suppliers would have access to the same information, provided through an established, consistent and transparent basis. However, if implementation discouraged gas from being imported into the GB market, leading to higher gas prices, this would be counter to facilitating effective competition between Shippers and between Suppliers.

BG Group has contended that as this Proposal "only proposes publishing one item of information, it cannot create a level playing field as it is not proposing a complete solution for information provision where all players on both the supply and demand side have access to equivalent information i.e. demand side players having access to supply side information and supply side players having access to demand side information. Furthermore as the Mod would only apply to one LNG terminal this clearly would result in a playing field severely tilted against those companies using that terminal."

BG Group also believed that "neither economic theory, nor practical experience of markets, required all players to know each others' information and positions. In a competitive market, such as the UK wholesale gas market, it is the interaction of supply and demand via different buyers and sellers which results in prices changes which signal the state of

supply-demand balance, and hence helps inform participant's trading decisions. Since the UK already has information on sub terminal gas flows in a market which balances on a national basis, standard product definition (i.e the gas is of the same specification), and good price discovery through market reporting and electronic exchanges, it is not clear how the Mod would add anything to improve competition.”

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer suggested that implementation would result in improved balance of the system as a whole through provision of information to shippers "to enable them to better forecast demand and thus make the appropriate trading decisions to balance their portfolio, with associated physical actions."

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The requirement for Residual System Balancing by the System Operator might be reduced if Users were able to balance their portfolios more accurately.

Further to the statements BG Group has made in respect of facilitating the achievement of the Relevant Objectives, it pointed out a lack of explanation on how implementation might lead to better decisions by Users and therefore concluded that it was not clear how implementation might reduce the requirement for Residual System Balancing.

b) development and capital cost and operating cost implications:

No cost estimates are available at present.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No change to recovery of costs is proposed.

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

No such consequences have been identified

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The Proposer's stated intention is that National Grid is not obliged to publish or make available operational or market data where this is not made available to it. It was noted, for example, that National Grid NTS currently receive stock information in respect of the Isle of Grain LNG Importation Terminal and it would expect such LNG-in-storage levels to form the aggregate that would be reported at D+1.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

An impact assessment identifying the areas of UK Link and other Transporter systems potentially affected has not yet been completed. Users may also choose to amend their systems in order to utilise the additional information.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Users may be able to better assess the quantity of LNG held in store at LNG Importation Facilities.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Parties involved in the importation of gas through LNG Importation Facilities would need to consider the implications of making information available to National Grid NTS if this Proposal was implemented.

The Proposer suggested that implementation may assist Consumers in being “as aware as possible of market conditions to determine if they can or wish to sell back gas/interrupt as part of demand side response.”

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Some consequences on these contractual relationships could arise in terms of the information provided to National Grid NTS.

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

Advantages:

- Improved information available to market participants to make appropriate purchasing decisions in a potentially tight supply/demand conditions, thereby facilitating improved aggregate system balancing and security of supply
- Creates level playing field for market participants in terms of information availability thereby assisting a more efficient market to reduce the ultimate cost of gas to all consumers.

BG Group has made it clear it did not accept these advantages for reasons highlighted in Section 2 of this report.

Disadvantages

- Fails to recognise distinction between storage and LNG Importation
- Increases Transporter and LNG Importation Terminal Operator costs to generate, aggregate and publish the required information
- Provides additional information which is not relevant and has the potential to mislead the market

- Discriminates against Importation Facilities that provide LNG-in-storage information to National Grid by requiring publication of information not provided with respect to other entry points
- Discourages importers from bringing gas to the GB market

Petgas Trading (UK) Limited has explained that importers would be discouraged “due to the inconsistency in terms of the regulatory regime for LNG importation facilities. This proposal is against the principle in which exemptions are being granted to facilities such as Dragon LNG and South Hook LNG and the UIOLI mechanism currently being implemented at the Isle of Grain facility.”

BG Group has also pointed out the following:

- “The Mod does not recognise that LNG import terminals are not defined as storage in the Gas Act. Furthermore the EU Gas Directive 2003/55/EC clearly excludes LNG terminals import terminals when dealing with storage. (“Article 19 paragraph 2. The provisions of paragraph 1 shall not apply to ancillary services and temporary storage that are related to LNG facilities and are necessary for the re-gasification process and subsequent delivery to the transmission system.”) The Guidelines for Good Practice for Storage System Storage Operators clearly state that they only apply to storage facilities in accordance with the Gas Directive. The Mod Proposer is therefore mistaken in wanting the GGPSSO requirements for information provision to apply to LNG import terminals.”
- The SME notes that BG Group also made reference to The Gas (Third Party Access) Regulations 2004, Schedule 2, Amendments to Gas Act 1986, para 6. Section 19 states the following:

(c) in subsection (1) for the definition of "LNG facility" substitute –

““LNG import facility” means a facility for the following -

- (a) the importation of liquid gas;*
- (b) the regasification of liquid gas following its importation and prior to its conveyance to a pipeline system operated by a gas transporter; and*
- (c) any temporary storage of liquid gas which is necessary for the operation of the facility;”;*

And

(j) in subsection (1) for the definition of "storage facility" substitute –

““storage facility” means a facility in Great Britain (excluding the territorial sea adjacent to the United Kingdom) for either or both of the following –

- (a) the storage of gas in cavities in strata or in porous strata, provided that the facility is or will be used for the storage of gas which has previously been conveyed in a pipeline system operated by a gas transporter;*
- (b) the storage of liquid gas;*

but the reference in paragraph (b) to the storage of liquid gas does not include such temporary storage as is mentioned in paragraph (c) of the definition of “LNG import facility”;

- BG Group has also pointed out that implementation of this Proposal would “discriminate against one LNG terminal and its users.”

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Report)

Written comments from BG Group and Petgas Trading (UK) Limited were reflected within the Workstream Report and are incorporated in this report.

Written Representations are now sought in respect of this Draft Modification Report

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to facilitate such compliance.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

National Grid NTS would need to procure changes to its website.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer originally sought implementation in October 2006 suggesting this would assist in maximising its impact prior to winter 2006/07 and continues to seek implementation as soon as possible after completion of the consultation process and preferably in December 2006.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel.

18. Text

The Proposer did not provide suggested text but identified that the Transportation Principal Document Section V Annex V1 "Table of Market Data" would require amendment.

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT
SECTION V – GENERAL**

Amend Annex V-1 by adding the following at the end of the table:

| Data | Timing | Format | Presentation | Disclosure |
|---|----------------------------|---------------|---------------------|-------------------|
| The aggregate physical LNG in store (in kWh) at LNG Importation Facilities at 05:59 hours on the Preceding Gas Flow Day | By 16:00 hours on each Day | Tabular | Viewable | Public |

NB: The above legal text may have to be amended in the event that Modification 0097 is implemented before this Modification.

Representations are now sought in respect of this Draft Modification Report and prior to the Transporters finalising the Report

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :

