

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

Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1. The Modification Proposal

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 parties believed that implementation would not yield any useful information that 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. Others believed implementation would improve the factual 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.

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.

Some respondents suggested the proposed information release could send inappropriate signals to the market and lower utilisation of the secondary product at LNG importation terminals, thereby not better facilitating achievement of the relevant objective.

Some respondents considered that implementation would be detrimental to efficient and economic operation through exacerbation of the information asymmetry between GB gas supply demand.

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.

Some parties 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. They believed it was unclear how the availability of such information would enable better forecasting of demand in practice.

Some also 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.

Some contended that as this Modification 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 Proposal would only apply to one LNG terminal this clearly would result in a playing field severely tilted against those companies using that terminal.

Some also argued 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 GB already has information published 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 implementation of the Proposal would 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.

Some pointed out the 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:

National Grid NTS estimated the cost of publishing the specified information on its website to be £55,000.

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

National Grid NTS would only be obliged to publish or make available information that is made available to it. Since National Grid NTS currently receives stock information in

respect of the Isle of Grain LNG Importation Terminal it would be expected that 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

No impact on the UK Link System has been identified. Users may 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.

Some respondents considered LNG import terminal operators may be deterred from entering into arrangements with National Grid NTS through fear of consequent information release - LNG Import terminal inventory associated with production would generally be sensitive commercial information and would not be provided to National Grid.

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
- Aligns this element of information provision to that of the Spanish market

- Encourages importation of LNG to the GB market through access to information on importation capacity

Disadvantages

- Fails to recognise the distinction between storage and LNG Importation making GB investment in the latter less attractive than elsewhere due to perceived regulatory risk, and deviation from ERGEG guidelines
- Increases Transporter and LNG Importation Terminal Operator costs to generate, aggregate and publish the required information
- Provides a perverse incentive for new LNG Importation operators not to contract with National Grid Gas for Operating Margins
- 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 due to exposure of their commercial positions
- Provides additional information which is not relevant and has the potential to mislead the market and potentially drive commodity prices higher.

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

Five respondents supported implementation of the Proposal, Eleven were not in support, one was neutral, as detailed below.

BG Gas Services	Not in Support
British Gas Trading	Not in Support
BP Gas Marketing	Not in Support
Chemical Industries Association	In Support
EDF Energy	In Support
energywatch	In Support
E.ON UK	Not in Support
ExxonMobil (including South Hook)	Not in Support
Gaz de France	Not in Support
INEOS ChlorVinyls	In Support
National Grid Distribution	Not in Support
National Grid NTS	Neutral
Petgas Trading (UK) Ltd	Not in Support
Shell Gas Direct	Not in Support
Statoil UK	Not in Support
Terra Nitrogen (UK) Ltd	In Support
Total Gas & Power	Not in Support

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 continues to seek implementation as soon as possible. National Grid NTS reported that it would require approximately 12 weeks to implement following Ofgem's decision.

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.

At the Modification Panel meeting held on 21 December 2006, of the 10 Voting Members present, capable of casting 10 votes, no votes were cast in favour of implementing this Modification Proposal. Therefore, the Panel did not recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

**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 Proposal 0097 is implemented before this Modification Proposal.

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :