

OFGEM DECISION LETTER No. 0497

"Top-up Manager's Methods For Accessing Storage Deliverability"
Version 1.0

Transco, shippers and other interested parties

08 July 2002
Our Ref: net/cod/mod/497
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Dear Colleague,

Modification Proposal 497 - "Top-up Manager's Methods for Accessing Storage Deliverability"

Ofgem has considered the issues raised in Network Code modification proposal 497 "*Top-up Manager's Methods for Accessing Storage Deliverability*" and has decided to direct Transco to implement the modification because we believe that it better facilitates the relevant objectives of Transco's Network Code. Ofgem expects that the modification will be implemented with immediate effect. In this letter, we explain the background to the modification proposal, the nature of the proposal and the reasons for our decision.

Background

Top-up gas is gas placed in storage by Transco either to enhance security of supply at the aggregate level, ie. national top-up, or for transmission support purposes in relation to particular parts of its network, ie. Constrained LNG (CLNG) top-up.

In April 1998, Ofgem concluded that national top-up would not be needed in the long term given the increase in the availability and diversity of peak gas supply sources Review of top-up gas. Conclusions, Ofgas April 1998.. In the context of envisaged reform of the storage market and a new energy balancing regime, which would incentivise shippers to make adequate provision for their peak day needs, Ofgas felt that top-up could be removed from Transco's Network Code. In line with this view, in February 1999, Ofgas approved Network Code modification 297 - '*Top-up cost treatment*'- to prevent Transco from recovering the costs of top-up gas from shippers.

Given that the provision of top-up formed part of its existing Safety Case with the Health and Safety Executive (HSE), it was recognised that Transco would subsequently have to seek approval from the HSE for the removal of references to top-up. Transco has thus far not been successful in this respect, and references to top-up remain in both Transco's Safety Case and the Network Code. (Issues associated with the funding of national top-up are reviewed in detail in Ofgem's recent decision letter rejecting Network Code modification proposal 472 - "*Restoration of Funding for National Top-up*").

Section P of the Network Code therefore continues to set out the detailed arrangements relating to the booking of top-up. Under these arrangements, Transco, acting as the '*Top-up Manager*', is required where possible, to book and fill storage space to make up any shortfall identified between available annual supplies, and forecast demand for a 1-in-50 winter. In addition, the Top-up Manager is required where possible to book storage deliverability equivalent to any identified shortfall between potential daily delivery and the forecast 1-in-20 peak day demand.

For 2001/2, Transco calculated that it would need to book 507 GWh of space and 255 GWh/d of deliverability at the LNG sites for national top-up purposes. In line with this, Transco planned to book the 207 GWh/d of unbooked deliverability that remained at the LNG facilities. Since LNG firm capacity bookings can only be made in a fixed ratio of 1 unit of deliverability to 5 units of space, this deliverability booking would also have secured 1035 GWh of space capacity. However, this level of space booking is well in excess of the identified space shortfall.

Ofgem indicated to Transco that it did not consider this an efficient manner of booking the identified requirement (irrespective of the more general questions of the determination of a need for top-up). In particular, Ofgem noted that Transco could book a lower level of top-up deliverability that would be in line with the space shortfall that had been identified, and secure any additional deliverability that might be required on a daily basis either by securing it from another firm rights holder. This would include Transco's *Operating Margins* account and also low cost deliverability overruns. This approach would be consistent with the basis upon which Transco books Operating Margins capacity at present.

Transco concurred with this view but pointed out that the Network Code did not currently permit Transco to use these alternative options.

Proposal

Transco, acting in its role as Top-up Manager, will be allowed to determine a '*Top-up flow rate requirement*' for each facility, equal to any shortfall that exists between shipper bookings and Transco's estimate of the required deliverability.

The Top-up Manager would not have to make a booking to meet any such shortfall providing that he is satisfied there is access to sufficient unbooked deliverability from other sources, eg. operating margins gas and storage operator services, such as daily deliverability, interruptible deliverability and overruns.

Respondents' views

Two responses were received. Both respondents were in favour of the proposal.

One respondent stated that the proposal would result in a more cost-efficient methodology for the procurement of top-up and should be implemented with effect from the 2001/2 Storage Year. This respondent believed that this proposal should be considered separately from Network Code modification proposal 472 "*Restoration of Funding for National Top-up*".

Transco agreed that the issue of top-up cost recovery is not an issue for this modification.

The other respondent also supported the proposal because it would give the Top-up Manager greater flexibility in contracting for top-up requirements and this would benefit all Users. This respondent was particularly concerned that Transco should have greater flexibility to minimise these costs if Network Code modification proposal 472 "*Restoration of Funding for National Top-up*" were implemented. This respondent also identified alternatives to the use of top-up, e.g. interruption or reverse flow through the interconnector, and asked that Transco consider the use of such alternatives.

Transco supported the proposal and agreed with both respondents that the proposal would result in greater flexibility for the Top-up Manager. Transco also agreed that there might be some merit in exploring the use of alternatives to top-up as suggested by one respondent.

One respondent highlighted the confusing use of square brackets in the legal text and inconsistencies between the on-line and hard copy versions of the legal text, and suggested that Transco should release a revised version of the legal text for consultation before compiling the final modification report.

Transco agreed that the legal text should not have any square brackets and has revised the text accordingly. However, Transco is satisfied that the legal text does not contain inaccurate references and inaccuracies.

Ofgem's views

In our recent decision letter rejecting modification proposal 472 "*Restoration of Funding for National Top-up*", Ofgem explained that it continues to believe that national top-up is unnecessary. The letter also highlighted the significant concerns Ofgem has in relation to the inefficient basis upon which Transco has identified a top-up requirement and the potential distortionary effects of the current top-up arrangements.

However, Ofgem recognises that modification proposal 497 can be expected to reduce the level of distortions associated with the existing top-up arrangements. This modification could be expected to better facilitate the relevant objectives of Transco's Network Code under Standard Condition 9 of Transco's gas transporters licence. In particular, Ofgem believes that this proposal will better facilitate the economic and efficient operation of Transco's system by reducing the top-up deliverability required.

The lower bookings of top-up deliverability and the consequent reduction in the distortion in the value of LNG services compared to other sources of flexibility will better facilitate securing effective competition between relevant shippers and between relevant suppliers.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification proposal. We believe that this modification would better facilitate the relevant objectives of Transco's Network Code in Standard Condition 9 of Transco's gas transporters licence, and in particular, will better facilitate the efficient and economic operation of Transco's network.

Ofgem expects Transco to implement this modification immediately.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above.

Yours sincerely

Nick Fincham
Director, Gas Trading Arrangements