

TOP-UP REVIEW GROUP (0001)
REVIEW GROUP REPORT

1.0 INTRODUCTION

Review Group 0001 was established under the Network Code to examine if it is possible to have alternatives to Top-Up or alternative providers of the service. One conclusion of discussions on the subject was that better targeting of costs is required to focus the costs on those shippers who under provide in relation to the 1 in 20 peak day and 1 in 50 severe security criteria. The Modification Panel were advised that this area of work should be carried out by the same review group and this was agreed with a target completion date of mid 97.

This report details the outcome of the review group discussions and makes recommendations for agreement by the Modification Panel.

In addition to the work on targeting a consultation process was also carried out by the group on the development of a tender for Top-Up services. A summary of the outcome is given in this report.

2.0 PRACTICALITY OF TOP-UP COST TARGETING

a) Costs associated with the provision of Top-Up

The final cost of providing the Top-Up service last year was about £12m. The initial estimate of costs for this winter was £64.68m although based on previous experience this is expected to fall as shippers book additional storage through the summer. The costs are currently £44.5m after some initial additional shipper bookings.

b) Information needed to allow targeting

In order to target costs effectively it is necessary to be able to assess the following elements reliably.

Demand side

Shippers' individual peak demand on the 1 in 20 peak day and profile of demand under 1 in 50 severe conditions. This information to take account of any load management that would be taking place

Supply side

Shippers' individual maximum supply availability and annual supply profile

Storage

Shippers' individual storage bookings for deliverability and space together with the level of filling

Trading

Shippers' net trading position after their supply and demand side commitments have been met

c) Method of assessment of individual elements and reliability of figures produced

Demand side

As stated in the original report produced by the group it is possible to determine the NDM 1 in 20 peak day requirements for each shippers portfolio using the capacity booking methodology used by Transco. The peak requirement for DM is determined by shippers themselves. A process would have to be developed and agreed to ensure shippers can consistently determine 1 in 20 DM requirements.

In addition, further development of the NDM allocation process will also be required before this methodology can be adopted for the allocation of Top-Up requirements and costs. NDM AQs will require several years of review before they can be considered reliable. Load factor variability does occur from year to year with only a limited run of data collection for the development of NDM profiles. However it can be assumed that this will be addressed through the NDM Algorithm consultation process and/or the Demand Estimation Sub-Committee, as there is an impact on shippers' capacity costs.

This means that in time data should be available to enable development of a Top-Up targeting process.

1 in 50 requirements could be determined individually using the Locutus package as a standard methodology. This would apply to the whole shippers' portfolio.

If cost targeting is introduced in the future rules would have to be agreed to deal with within year changes to a shippers' portfolio.

Finally there is currently no incentive for shippers to provide information about commercial interruption. This can lead to over-estimation of Top-Up requirements if it is greater than that already assumed by Transco. Cost targeting may provide an incentive to shippers to provide this information to Transco.

Supply side & storage

It is possible with reasonable accuracy to assess the overall beach availability in aggregate by using current methods for Top-up purposes. However to determine the way that gas is apportioned between shippers would require shippers to provide information on their gas purchasing arrangements. The figures for individual shipper storage bookings and stocks are already made available to Transco. There is currently no incentive for shippers to provide accurate details of their gas purchasing arrangements and they may find this commercially sensitive information that they may not wish to provide. Additional issues to be addressed are the extent to which shippers rely on the day trading, changing supply portfolios and a method for testing the accuracy of information provided.

Shippers may make assumptions that they will enter into short term trades to meet their supply requirements. Details of such trades may not be available before the year and there is potential for double counting of such gas. When cost targeting is first introduced it may be necessary to ignore such gas trades or to require a high level of proof that the gas will be available at peak demands.

In future, developments that encourage shippers to provide accurate supply data and allow monitoring of their changing supply position will make targeting more feasible.

An alternative to ahead of winter targeting could be to use daily data throughout the winter, but there are potential drawbacks with this also. It would be easy to determine after the day the final supply position for individual shippers after all trades have taken place but the actual supply security position would not be easy to determine. The situation will change as shippers alter their commercial position, such that they may actually be preserving some peak flexibility or trading it away. Furthermore the weather may not be cold enough to test shippers gas availability to the limit.

d) Conclusion

The Top-Up review group have determined that due to the difficulties outlined above the targeting of Top-Up costs to individual shippers causing the need is currently impractical. It may be that full targeting of costs will always be impractical but whilst costs remain significant it was agreed that it is desirable in the future to develop at least partial targeting of costs. Such targeting would provide incentives on shippers to provide better information on available supplies and commercial interruption.

The feasibility of developing a cost targeting mechanism is dependent on being able to make use of existing processes and data. Having identified such processes it is recommended that targeting of Top-Up costs is looked at again when the data issues have been resolved.

3.0 TOP-UP TENDER

On the 21st April, a note was circulated by Transco entitled "Consultation note on the requirements for a Top-Up tender". Only two responses were received. One which highlighted the fact that there was still a lot of issues requiring resolution and hence the tender should be delayed until next year with resolution of these issues taking place this year. The other response made no comment on the note, but the company concerned requested to be considered when the tender was issued.

In view of the limited response received and the need for much more detailed development before further consultation the group agreed that the tender should be deferred until next year and that Transco should raise a proposal to create a review group. This group would develop the outline for the Top-Up service tender process, the structure of the tender and how the tender will be evaluated.

4.0 RECOMMENDATIONS

1. The Top-Up Review Group (0001) will stop work on the examination of Top-Up cost targeting and opt-out
2. As the Top-Up Review Group have completed the work envisaged under the terms of reference, Review Group (0001) will be closed down
3. Transco will raise a review proposal for the sole purpose of developing the Top-Up service tender