

Modification Report
Modification Reference Number 233

This Modification Report is made pursuant to Rule 7.4 of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

As part of the review of Top-Up, Ofgas identified the need to consider alteration of the value of 'N' for Top-Up bid calculation, from N=50 to N=20. The current value gives Top-Up bids for the various storage facilities in the range of 42p/kwh at Rough to 129p/kwh at Dynevor Arms (although the effective range is capped at 99.9999p/kwh because of constraints in the AT Link system). Although the current bids cap the flexibility mechanism it creates artificially high prices for Top-Up gas which distorts the bidding process, leading to potentially higher flexibility market costs. A value of 20 will reduce the cost of Top-Up bids and hence flexibility costs, but at the same time will not have any significant effect on the incentives for shippers to meet their peak gas needs and for suppliers to meet the domestic security standard.

This proposal is therefore to replace a value of N=50 with a value of N=20 for the purpose of calculating Top-Up bids.

2. Transco's opinion:

This modification should be implemented

3. Extent to which the proposed modification would better facilitate the relevant objectives:

By reducing flexibility costs, this modification will lead to more efficient discharge of Transco's licence obligations (Condition 7b).

4. The implications for Transco of implementing the Modification Proposal, including:

a) implications for the operation of the System and any BG Storage Facility:

None

b) development and capital cost and operating cost implications:

None

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

There are no costs incurred.

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

None

5. **The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal:**

None

6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

None identified

7. **The implications of implementing the Modification Proposal for Relevant Shippers:**

This modification will reduce flexibility costs.

8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

None

9. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

There will still be an incentive for suppliers to meet their domestic security standard and shippers will still have an incentive to provide for their own peak gas needs.

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

Advantages: The modification will reduce flexibility costs.

Disadvantages: May slightly reduce the incentive for Shippers to provide gas for security of supply reasons

11. **Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):**

Six shippers made representations concerning this modification. Five supported the modification and one was against it. The latter shipper gives the following reasons for not supporting the modification:

- 1) The 1998/9 Top-Up bookings are too small to provide an effective cap to the flexibility mechanism, therefore this modification will not reduce flexibility costs.
- 2) The reduction of N from 50 to 20 will reduce the incentives on shippers to make adequate security arrangements and therefore there will be a reduction in the security of supply for endusers.
- 3) The reduction of N from 50 to 20 will reduce the incentives on shippers to make adequate security arrangements and lead to a greater Top-Up requirement (if Top-Up is retained) and hence a greater income for BG Storage

In spite of the low level of Top-Up booked for 1998/9, Transco believes that the lower value of N will encourage shippers to place lower bids on the flexibility mechanism. Transco considers that any value of N between 20 and 50 sets sufficient incentives on shippers to book storage to meet a 1 in 20 peak day and a 1 in 50 winter.

One of the shippers who supported the proposal, suggested that Modifications 233, 237 and 238 should be considered together. Transco does not consider that this is appropriate, as although all three modifications concern Top-Up, they are independent of each other.

Transco Response:

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

Transco's ability to retain the incentive on shippers and suppliers with regard to security of supply are unaffected by this modification.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement; furnished by Transco under Standard Condition 3(1) of the Licence:

Not applicable

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

The Top-Up bids will require amendment.

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

As soon as possible but in any event prior to 1/10/98

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommend this modification should now be implemented.

17. Restrictive Trade Practises Act:

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal:

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

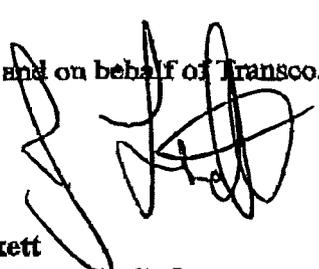
19. Text provided pursuant to Rule 7.3

Section P 5.3

Deletes "N is 50" and replace with "N is 20".

Signed for and on behalf of Transco.

Signature:



John Lockett
Manager, Network Code

Date:

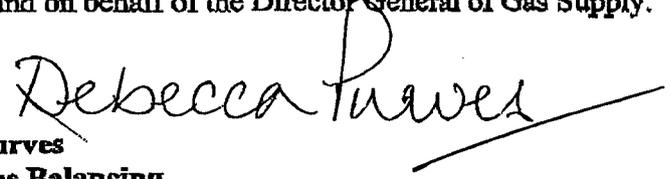
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Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference 233, version 1.1 dated 17/08/98 be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Rebecca Purves
Head of Gas Balancing

Date:

18:08:98

The Network Code is hereby modified, with effect from *1st September 1998*, in accordance with the proposal as set out in this Modification Report, version 1.1.

Signature: *D. Reubman* *pp R. Gray.*

**Process Manager - Network Code
Transco**

Date: *21/8/98*

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or
- (ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.