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**Modification Proposal 0233****Top-up - Change Value of N from 50 to 20****8th June 1998****Present Position**

Top-up gas is placed in storage by Transco to ensure security of supply where shippers in aggregate have not made sufficient provision for this. Top-up is bid into the flexibility mechanism at prices approximately fifty times cost. This is intended to create a commercial incentive to shippers to meet customer demand on peak days, the supply security standards (1-in-20 peak day and 1-in-50 severe winter) which are consistent with Transco's licence condition.

The Top-up manager at Transco estimates the top-up requirement by evaluating storage bookings and expected supply and demand although this can be recalculated in the light of better information. The top-up bid price is calculated according to a formula which takes into account the cost of the gas, the cost of storage, injection, space, deliverability and withdrawal costs.

Proposal

The top-up flexibility bid multiplier, N, was examined in February 1998 in the Ofgas consultation document, Review of top-up gas. We proposed that the number be altered from N = 50 to N = 20. This modification will facilitate this change. 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 42p/kWh to 99.9999p/kWh because of constraints in the AT Link system). The current level of bid prices provides a cap on the mechanism and artificially high prices for top-up gas which distorts the bidding process. A value of 20 should still ensure that shippers can meet the supply security standards. The range of top-up bids will fall as a result of this proposal, resulting in a more effective use of top-up as a method of ensuring security of supply.

Possible Impact on Customers

There will be no direct impact. However, this should allow the flexibility mechanism to work more efficiently which will be of benefit to customers.

Further Information

Contact - Richard Robinson at Transco - 0121 623 2285
Tahir Majid at Ofgas - 0171 932 1669