

Draft Modification Report
Modification Reference Number 0233

This draft Modification Report is made pursuant to Rule 7.4 (a) 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:

This modification will reduce flexibility costs.

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: Lessens 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):**
Not applicable

Transco Response:

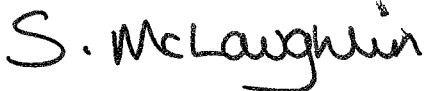
12. **The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:**
Transco's ability to retain the incentive on shippers and suppliers with regard to security of supply are unaffected by this modification.
13. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of 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. **Text provided pursuant to Rule 7.3:**


Section P 5.3

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

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report.

Signed for and on behalf of Transco.

Signature: 

 **John Lockett**
Manager, Network Code

Date: