

Direct Dial: 020-7901-7021

Transco, Shippers and other Interested Parties

16 August 2002

Our Ref: Net/Cod/Mod/504

Dear Colleague

Modification Proposal 504 “Top up Process Enhancements”

Ofgem has considered the issues raised in Modification Proposal 504 “*Top up Process Enhancements*” and has decided to direct Transco to implement the modification because we believe that it better facilitate the relevant objectives of Transco’s Network Code. In this letter, we explain the background to the modification proposal, the nature of the proposal and give our reasons for making this decision.

Background

Section P of Transco’s Network Code contains the detailed arrangements concerning the procurement and usage of top-up. The ‘process enhancements’ in this modification proposal primarily relate to what is referred to as *national top-up*¹. Under the arrangements for national top-up, at the beginning of each storage year Transco must assess the potential for aggregate available supplies to meet its estimate of the 1 in 20 peak day demand, and the 1 in 50 winter load duration curve. Where a shortfall is identified, Transco, acting as the top-up manager, will book and fill storage capacity to make up the difference.

¹ Transco’s Network Code also contains arrangements for what is referred to as *Constrained LNG Top-up*. These arrangements are discussed in detail in Ofgem’s decision letter for Modification 529 “Treatment of Constrained Top Up Costs for Storage Year 2002/03”.

In addition to this, Transco may have to intervene under the top-up arrangements if usage patterns are such as to reduce stored levels of gas below Transco 'monitor' levels. In particular, under Section P2.1.3 of Transco's Network Code, the "*Aggregate Remaining Stored Gas Requirement*" is the amount determined, and from time to time re-determined, by Transco as the amount by which the estimated remaining 1 in 50 severe annual demand exceeds remaining maximum annual supply for the remaining part of the gas year after the day in question².

The Proposal

Transco proposes a number of changes to the top-up arrangements set out in Section P of its Network Code. The key changes proposed are as follows:

- (i) the top-up manager should not be required to book its full requirement for storage capacity at the start of the storage year, but should be allowed to phase its bookings balancing the risk of booking and possibly filling capacity that later turns out not to be required against the risk of not being able to inject the required quantities of gas before November 1st;
- (ii) the top-up manager should take account of possible filling in the winter period (November to April inclusive) to allow some flexibility having regard to anticipated gas availability and injection capabilities;
- (iii) for February and March, the top-up manager should have discretion to refrain from intervention even if the level of gas-in-store falls below its 'monitor' level for the day if it anticipates that gas-in-store will be at or above the required monitor level within five days;
- (iv) the top-up manager should not be required to make Top-up Market Offers outside the winter period unless the top-up manager considers there may be an imminent requirement.
- (v) the top-up manager should be able to have regard to specific storage facility characteristics when making its decisions;
- (vi) where the top-up manager has bought storage capacity on a bundled basis, it should only make storage capacity transfers on a bundled basis; and
- (vii) adjustments to the calculation of the Top-up Market Offer Price should be introduced primarily to take account of the fact that relevant top-up storage

² For further details concerning Transco's top-up purchases and cost recovery, please refer to Ofgem's decision letters for Modification Proposals 356, 391, 472 and 529.

capacity costs may not simply arise from the purchase of bundled units of capacity;

Respondents' views

One representation was received in response to the proposal. The respondent supported the implementation of the proposal.

The respondent noted that a Planning & Security Workstream sub-group had reviewed the existing Network Code rules for top-up, and that the intent of the proposed modification – to make a number of non-contentious changes that would improve the top-up rules – was consistent with the work of the sub-group. The respondent considered that all of the changes proposed can reasonably be seen as improving on existing rules, and that none of the changes are likely to disadvantage any particular party.

The respondent argued that some of the proposed changes are very urgent since the existing rules could require Transco to procure and inject gas into storage space that is booked but empty in situations where such intervention is likely to be unnecessary.

Transco's views

Transco has stated that it raised the Modification Proposal in order to allow the Top-up Manager greater flexibility in maintaining 1 in 50 security of supply. It has argued that providing the Top-up Manager greater flexibility in making decisions on storage injection, without compromising security of supply, is consistent with the efficient and economic operation by the licensee of its pipeline system.

Ofgem's views

This modification would introduce a number of changes that would provide Transco – when acting as Top-up Manager – with greater flexibility in deciding to take an action. In particular, proposed changes (i) – (iv) as set out above seek to allow such greater flexibility. Ofgem considers that these changes can be understood as better facilitating the securing of effective competition between relevant shippers and between relevant suppliers.

The proposal to allow the top up manager to have regard to specific storage facility characteristics (proposed change (v) above) can be understood as complementary to these changes, as it would allow the top-up manager to take account of the differing injection capabilities of sites (including those with the same duration) when assessing the potential for refilling.

Ofgem considers that the proposed requirement that the top-up manager should only be able to make storage capacity transfers on a bundled basis when the capacity in question was purchased on a bundled basis (proposed change (vi) above) may also reduce the potential for market distortions. The requirement that capacity can only be transferred by the top-up manager on a bundled basis should simply result in capacity being made available to users on the same basis as it would have been had the top-up manager not intervened.

Ofgem considers that the proposed adjustments to the calculation of the 'Top-up Market Offer Price' (TMOP) can be justified as bringing the calculation into line with other Network Code changes whilst not changing its main characteristics. In particular, since the implementation of Network Code Modification Proposal 497 "*Top-up Manager's Methods for Accessing Storage Deliverability*" allows for the top-up manager to access storage capacity other than through the booking of bundled units, then it seems reasonable to adjust the storage capacity cost element of the TMOP calculation to be consistent with this.

Ofgem's decision

Ofgem has therefore decided to direct Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above or Amrik Bal on 020 7901 7074.

Yours sincerely

Kyran Hanks

Director, Gas Trading Arrangements