

98102/20102



Urgent Modification Proposal 0209
Use of Top-up to avoid excessive flexibility prices.

16th February 1997

Present Position

Top-up is gas placed in storage by Transco to enhance security of supply. It fulfils two roles, physical presence by ensuring that firm demand can be met and by an incentive for gas shippers to make sufficient provisions to cover security of supply for themselves.

Security of supply consists of two service standards. The first is the "1 in 20 peak day" winter to meet demand on one day in twenty years. The second is "1 in 50 severe winter" to meet demand for one year in fifty years.

Where in aggregate shippers fail to meet the security standards Transco will book Top-up to make up the short fall. The cost of Top-up sets the maximum price of gas for out of balance shippers on the day. The cost of Top-up is based on the price of the gas and the cost of the use of the storage facility multiplied by "N". Currently the value of "N" is 50.

Following the artificially high prices in the flexibility market on the 16th and 17th December 1997, Ofgas expressed concern to the industry of the potential of artificial extreme prices during the remainder of the winter. The industry was consulted on urgent modification proposals 205 "Auction sale of Remaining Rough Firm Deliverability and Space" and 205a "Use of Rough interruptible Deliverability Above 'V' = 85%". However, partly following shipper concerns about the effect of changing the rules of storage in the middle of winter, Ofgas rejected both these proposals. Furthermore, Ofgas indicated that we did not expect changes to be made to the Energy balancing Regime for the rest of this winter.

Proposal

It is proposed that the value of "N" is only 50 when it is necessary to use Top-up to meet 100% of "1 in 20 peak day" demand, i.e. $V = 100\%$. The value of "N" is reduced in stages down to $N = 1$ where V is less than 88%. The value of Top-up sets the maximum prices of bids on the flexibility market. This will have the effect of capping flex bids at generally lower prices which relate more closely to the level of demand.

Reason for urgency

In consideration of the change of previously held views by a number of shippers and in light of the unfeasibility of this modification being implemented in time for this winter via the non-urgent modification route, Ofgas have agreed that this modification should be treated as urgent.

Possible impact on Customers

It is likely that the change will reduce the likelihood of extreme prices of accepted bids in the flexibility market for the rest of this winter. This modification may have no direct impact upon customers, however, any change in shipper costs would ultimately be passed on to customers.

Further information

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Representations to Richard Gray Transco, fax: 0121 711 1451 by 5pm Friday 20th February.