

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0656
"Top-Up Counter Nomination Cost Allocation"
Version 1.0

Date: 13/10/2003

Proposed Implementation Date: 01/12/2003

Urgency: Non-Urgent

Justification

Under its Gas Transporter Licence Transco is expected to fulfil certain security of supply obligations and these are reflected in its Safety Case. This Safety Case makes reference to the contribution made by Top-Up in achieving supply security, the role of Network Code incentives and obligations within the Gas Supplier licences. In summary these are as follows:

- In the Gas Transporter Licence, Standard Condition 9 (1) (d) requires that transporter to establish a network code calculated (inter alia) to provide "reasonable economic incentives for relevant suppliers to secure that the domestic supply security standards" are satisfied as respects the availability of gas to their domestic customers, and Top-Up is part of the arrangements through which Transco meets this condition.
- In the Gas Supplier licence there is a requirement for the relevant supplier to either meet "**domestic supply security standards**" in relation to their domestic customers, or secure that gas conveyed by gas transporters for supply to domestic customers is conveyed in conformity with those transporters' network codes. This definition of supply security standards is contained within paragraph 4 of Standard Condition 32A in the Supplier Licence.

Transco as Top-Up Manager monitors storage stocks throughout the Winter Period to ensure that security of supply would be maintained even if that winter were of the 1 in 50 severity referenced in the Gas Supplier licence. If the Top-Up Manager determined that Users' withdrawal nominations would cause the storage stocks to fall below the calculated monitor level then Winter Injections would be made to ensure that stocks would be retained at this monitor level. In this Winter Injection situation, the Top-Up Manager would secure the storage capacity, procure the gas required and make the Winter Injection nomination. The costs of this activity are not at present attributed to Users but are met by Transco even though the depletion of storage stocks would indicate either a lack of supply side provision or demand flexibility to meet the 1 in 50 demand profile. This indicates that costs would be better attributed to Users that indicated through their daily imbalances, a lower level of such provision.

By placing costs on Users that incur negative imbalances ("shortfalls") on Days where the total gas demand on the System exceeded a set threshold, implementation of this Modification Proposal would strengthen the incentives in place for relevant suppliers to secure that the domestic supply security standards are being met.

Nature of Proposal

It is proposed in the event that on one or more days the Top-up Manager determines a Winter Top-up Injection Requirement and in consequence injects gas into storage, the storage costs and net gas costs incurred by the Top-up Manager would be recovered from Users in accordance with the following high level principles:

1. The net costs arising from Winter Injections would be established over the Winter Period ("**Net Counter-Injection Costs**").
2. A basis (expressed in kWh) would be determined over which such costs would be recovered ("**Recovery Quantity**").
3. A unit charge would be derived from the Net Counter-Injection Costs and the Recovery Quantity ("**Initial Counter-Injection Charge Rate**"). Normally this charge rate would be applied to the individual User contributions to the Recovery Quantity.
4. In recognition that a high setting of this charge rate might lead to excessive cost exposure for specific Users, a limit to this exposure would be indicated.
5. If this limitation of exposure were triggered, however, not all Net Counter Injection Costs would be recovered. It is proposed that in these circumstances the unrecovered portion of the Net Counter-Injection Costs be attributed on the basis of Users' demands over the Winter Period.

Transco has developed and discussed within the NT&T Workstream a set of detailed business rules in accordance with these high level principles. Its preference is that:

1. The Net Counter-Injection Costs calculations should allow for the fact that Top-Up revenue, either resulting from acceptance of a Top-Up Market Offer or as a result of subsequent Top-Up stock disposals, does not separately identify gas procured prior to the Winter Period and gas procured through Winter Injections. The business rules therefore attribute such revenues in cost proportions in order to identify net costs arising from pre-winter and within-winter Top-Up procurement.
2. The Recovery Quantity be set to equal the sum of all Users' negative daily imbalances on Days where the D-1 Demand Forecast exceeded a predetermined demand threshold. ("**Top-Up Relevant Days Threshold**"). Transco's preference is that the Top-Up Relevant Days Threshold be set to equal the beach gas plus Interconnector import contribution identified within its annual Top-Up statement.
3. The Initial Counter-Injection Charge Rate be set as the Net Counter-Injection Costs divided by the Recovery Quantity.
4. The cost exposure limit be achieved by ensuring that on any Top-Up Relevant Day the Counter-Injection Charge rate be no higher than the value of the Top-Up Market Offer Price minus the SMP_{buy} price for that Day. Transco has, however, identified two alternative exposure limit methods based upon a preset maximum

Counter-Injection Charge Rate and a more complex method that directly limits a Users' total exposure.

Transco would welcome representations on the preferences identified above including the bases on which Recovery Quantity is set, the Top-Up Relevant Days Threshold is defined and the method to be adopted for limiting User exposure.

Purpose of Proposal

Implementation of this Modification Proposal would enhance the incentives on Users to procure sufficient supply and demand side response capability in order to balance their supply/demand position during a severe Winter. This is consistent with the provision of reasonable economic incentives for relevant suppliers to secure that domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers.

Consequence of not making this change

Users would continue to be largely protected from their exposure to Top-Up costs even where such costs arose from insufficient provision of supplies and/or demand-side flexibility to meet the 1 in 50 Winter supply security criteria. This could lead to over-reliance on Top-Up and lead to reduced supply security over time.

Area of Network Code Concerned

Section P: Top-Up Storage

Proposer's Representative

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Proposer

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Signature

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