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Transco, Shippers and other
interested parties

Our Ref: Net/Cod/Mod/710
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23 August 2004

Dear Colleague,

Request for urgent status for modification proposal 710; 'Removal of Top-up arrangements'.

Ofgem has agreed to the request that modification proposal 710 'Removal of Top-up arrangements' follow urgent procedures. In this letter Ofgem explains the reasons for this decision and sets out the envisaged timetable to be followed.

Top-up refers to the gas that is held or placed in store by Transco in order to meet any shortfall that it identifies when its forecasts of gas supplies are compared with its forecasts of firm demand for the forthcoming winter. Transco has raised this modification proposal seeking to remove the Top-up arrangements from its network code, following a recent review exploring the costs and effectiveness of those arrangements by Ofgem¹. Transco has also submitted a revised safety case to the Health and Safety Executive for its approval, which would not include the current, largely commercial, Top-up arrangements but replace them with the concept of a safety monitor, relating to a physical demonstration of how it can isolate certain consumers in an emergency in order to ensure their safety, whilst ensuring that consumers that cannot be physically isolated continue to receive gas supplies.

In determining whether to grant urgent status to this modification proposal, Ofgem has considered the criteria it generally applies to such requests². In this instance, the modification proposal appears to relate to all three criteria, namely:

- Ofgem considers that there may be a real likelihood of significant commercial impact upon Transco and consumers if this proposed modification does not follow an urgent timetable. The impact assessment contained within its August conclusions estimated the direct costs to Transco of purchasing top-up to be £10m's even in a mild winter. Furthermore, there may be significant indirect costs to consumers as a consequence of such actions, which are likely to lead to an increase in spot gas prices and potentially forward gas prices.

¹ "The review of Top-up arrangements in gas: A consultation document", Ofgem, May 2004 and "The review of Top-up arrangements in gas: A conclusions document", Ofgem, August 2004

² www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency%20Criteria.pdf

- Ofgem also considers that this modification may have implications for the safety and security of the network. Whilst Top-up gas was intended to safeguard security of supply in the event of any perceived gaps between supply and demand for the forthcoming winter, Ofgem's view, as set out in its August conclusions document, is that the effect of the existing arrangements may actually undermine the commercial incentives upon companies to deliver secure supplies.
- The proposal is linked to an imminent date related event insofar as the *Winter Period*, as defined in the Transco network code, starts 1 November. It is from this date that Transco may need to commence counter-nominations for any gas withdrawn from relevant storage facilities.

The granting of urgent status and adherence to the timetable set out below would ensure that the proposal is in a position to be decided upon and if appropriate implemented by the 1 November 2004 date suggested by Transco. The timetable for this modification proposal will therefore be as follows:

Proposal issued to Ofgem for decision on urgency	20/08/04
Proposal agreed as urgent	23/08/04
Circulate to Users requesting representation	23/08/04
Close out for representation (10 days)	07/09/04
Urgent modification report issued to Ofgem	17/09/04
Ofgem decision expected by	30/09/04

Ofgem has not, by accepting the request for this modification proposal to be given urgent status, made any judgement on the merits of the modification proposal itself.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above.

Yours sincerely,



Nick Simpson
Director, Modifications