

**URGENT Modification Report**  
**Removal of Top-up Arrangements**  
**Modification Reference Number 0710**  
Version 1.0

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because in its document, 'The Review of Top-up Arrangements in Gas: Conclusions Document', Ofgem states that it "remains of the view that Top-up should be removed from Transco's Network Code" and that the "preferred option for reform is the removal of Top-up from Transco's Network Code for this winter".

**Procedures Followed:**

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal:

	<b>Due Date</b>
Issue agenda, Business Rules and Modification Proposal to PSS Workgroup	17/08/04
PSS Workgroup Meeting	18/08/04
Close out for comments on Draft Business Rules	20/08/04
Proposal to Ofgem for Urgent Status	20/08/04
Ofgem decision on Urgent Status	20/08/04
Issue Modification Proposal for consultation	23/08/04
Close out for representations (10 days)	10/09/04
Submit Final Modification Report to Ofgem	21/09/04
Ofgem Decision	30/09/04

**1. The Modification Proposal**

It is proposed to remove the Top-up Arrangements from the Network Code, which includes the following:

- The storage booking and Winter Injection processes
- The calculation of storage monitor levels, Stored Gas Requirement and Top-up Market Offer Prices

It is proposed to replace the arrangements with an obligation on Transco to publish two monitor levels aggregated by Storage Facility Type. The "Firm Gas Monitor" would cover total firm demand and the "Safety Monitor" would cover those sectors of demand defined in Transco's Safety Case (at present Non Daily Metered and Priority Supply Points, and firm

Irish Interconnector demand). Transco will also publish periodic information in relation to each Storage Facility Type, highlighting the risk of a breach of the 'Safety Monitor', within operationally significant time-scales.

Where Transco is aware that the Safety Monitor levels have been, or are forecast to be breached, then Transco would liaise with the Network Emergency Coordinator (NEC) prior to the NEC declaring a Gas Supply Emergency.

## **2. Transco's Opinion**

Transco notes the view set out in Ofgem's recent document "The Review of Top up Arrangements in Gas: Conclusions Document" that Top-up arrangements should be removed from the Network Code. Transco also notes Ofgem's concerns over the potential for the present Top-up arrangements to distort competition in the wholesale and storage markets. As a result of Ofgem's document, and consistent with Transco's proposed Safety Case revision to introduce a system of safety monitors, Transco has raised this Proposal. Implementation of this Proposal would ensure that Transco continues to meet its GT Licence obligations (particularly those relating to the safe and efficient operation of the System) and is consistent with its obligations under its revised Safety Case (subject to approval by the HSE) whilst removing a potential source of distortion to competition in the wholesale and storage markets.

## **3. Extent to which the proposed modification would better facilitate the relevant objectives**

By removing a potential for distortion in the use of Storage Capacity, and by better facilitating competition in the provision of Storage and other flexibility services, this Proposal seeks to better secure effective competition between relevant shippers and between relevant suppliers.

By removing processes that may undermine the commercial incentives on suppliers in respect of supply security, this Proposal also seeks to provide further reasonable economic incentives for relevant suppliers to ensure that the domestic customer supply security standards are satisfied in respect of the availability of gas to their domestic customers.

## **4. The implications for Transco of implementing the Modification Proposal , including** **a) implications for the operation of the System:**

If this Modification Proposal were implemented, the Top-up Manager would no longer make Winter Injections in an attempt to maintain storage stocks. Such injections would be expected to have an effect on the on-the-day markets which in turn might affect the scale and/or costs of Transco's SO balancing actions. Implementation would therefore remove this effect on market operation. On very cold days the removal of the present concept of very high price Top-up Market Offers would allow Transco to balance the System using gas offered on the OCM at current market reflective prices rather than at prices derived from a storage cost related formula.

The proposed legal text now states that a Network Gas Supply Emergency (NGSE) may arise due to a potential or actual breach in the proposed Safety Monitor. Transco does not, however, believe that this would increase the probability of a NGSE occurring as Users would consider that they might face additional costs in the event of a NGSE and hence adjust their commercial arrangements. The actual conduct of a NGSE, however, would not be changed by the implementation of this Proposal.

**b) development and capital cost and operating cost implications:**

Transco is not aware of any major direct development or capital costs. The Ofgem Conclusions document identified potential Top-up Winter Injection costs of between £20m (low case, average winter) and £600m (high case, 1 in 50 cold winter) under the current Top-up arrangements. Transco's estimates are lower than this (£8m to £350m) but must still be viewed as costs requiring attention. Implementation of this Modification Proposal would remove this cost exposure.

**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:**

Not applicable.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

Transco is unaware of any consequences implementation would have on price regulation.

**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**

Implementation would remove the financial risk to Transco presently arising from Winter Injections as set out in Ofgem's Conclusions Document and summarised in 4.b above.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

Transco is proposing to develop a web site based utility that would give Users further information on storage monitors and storage stocks. Work on this is already well advanced.

**7. The implications of implementing the Modification Proposal for Users**

Users would no longer encounter potential distortions to the operation of the gas market due to the activities of the Top-up Manager. In its Conclusions Document Ofgem has included an analysis of indirect Top-up costs and this identifies a risk of "very substantial costs - even under average conditions" should the current Top-up regime be retained. This risk would be removed by implementation of this Modification Proposal.

The removal of the present means of storage stock protection would give Users an additional incentive to manage their own supply/demand portfolio in order to prevent the onset of a NGSE.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party**

This Proposal includes provisions for storage stock information to be transferred from Storage Operators to Transco for aggregation and publication. Consequential amendments are therefore being prepared to the relevant Storage Connection Agreements and Transco intends to include these amended information transfer requirements in the Generic Storage Connection Agreement.

Transco would expect shippers to pass on any benefits of implementation of this Modification Proposal to suppliers and end-users. Transco also believes that implementation of this Proposal might lead to development of interruptible arrangements between shippers/suppliers and end-users to the benefit of both parties.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

Transco believes that implementation of this Modification Proposal would be dependent on approval by the HSE of the associated revisions to Transco's Safety Case. If this Proposal were to be approved without such Safety Case approval, Transco would be placed in a conflict between its legal and statutory obligations.

In addition if the Modification Proposal were to be implemented then Transco would expect some development of contractual arrangements between Users and certain Non-Network Code parties in response to the enhanced commercial opportunities that implementation of this Proposal might bring.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Transco has identified the following advantages of implementation:

- Less potential for distortion of the gas market due to the actions of the Top-up Manager.
- Reduction in financial risk to Users as a consequence of market distortion.
- Strengthening of incentives on Users to manage their own supply/demand positions.

Transco has identified the following disadvantage of implementation:

- Prior to declaration of a NGSE, less control on storage stock position to support non-priority firm daily metered demands.

## 11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

14 responses were received to the consultation:

<b>Respondent</b>	<b>For/Against</b>
Association of Electricity Producers (AEP)	For
British Gas Trading (BGT)	Against
BP Energy	Comments
BOC	Against
Centrica Storage Ltd (CSL)	Against
Corus UK Limited (Corus)	Against
Edf Energy plc (EDF)	For
E.on Uk plc (EON)	For
Ineos Chlor	Against
RWE npower (RWE)	For
Scottish and Southern Energy (SSE)	Against
Shell Gas Direct (SGD)	Comments
Terra Nitrogen (UK) (Terra)	Against
Total Gas & Power Limited (TGP)	For

### Gas Market Interactions - Current and Revised Regime

AEP considered that "the balance of supply and demand should be addressed via market based solutions, and that the existence of top-up and Transco's ability to call interruptions for supply/demand could limit the incentives on shippers to source gas to meet their customers' demand and that actions to preserve monitor levels could create market distortions."

BGT recognised that the likelihood of an emergency would "stimulate appropriate responses. Such responses would come from both Supply and Demand side. It has been specifically indicated that this regime would incentivise greater demand side response, but this is by no means certain. To date there has been limited expression of interest in such arrangements. Details would need to be put in place through contractual arrangements".

BOC referred to the risk that Transco's Winter Injection actions could cause artificially high gas prices to be set. Consequently "as a natural gas customer and as higher gas prices have a clear link to power prices BOC would wish to avoid the risk that power prices increased as a consequence. However, BOC believes that the replacement of the present top up arrangements by way of contracted customer demand response is most unlikely to be effective for the forthcoming winter." BOC suggested instead direct contracts between Transco and end-users and for changes in UIOLI arrangements in respect of storage withdrawals.

CSL set out the sequence of events that it believed Ofgem expected would incentivise the market but noted that "the reduction in demands would make some shippers 'long', but will not necessarily reduce storage withdrawals. The assumption is that gas would trade and that

storage withdrawals would (normally) be reduced. However, if the above steps fail to protect the safety monitors then Transco would take further action."

Corus, whilst recognising the potential effect on market prices that could result from the current top-up arrangements, did not believe that abolition of Top-up would be an appropriate response at this time. It suggested that the "present 'problem' with top-up does not appear to be its presence, per se, but rather the rules surrounding it, which facilitate gaming through the effect of 'UIOLI' on Transco counter-nominations. This could result in Transco having to call an emergency." Corus whilst recognising the theory that demand side reduction response might result from high market prices suggested the practice might be different. In particular "demand side mechanisms in gas are much less developed than electricity where end-users can and do contract with NGC for ancillary services and can lodge standing BM unit offers in the electricity balancing mechanism. Also, electricity load reductions tend to be offered for relatively short periods (less than a day) whereas gas reductions in severe weather conditions may be needed for a number of days..... It must be remembered that selling back to the market of electricity and gas is not a core activity of manufacturers who have tight production schedules to make things for their customers, often on a just-in time basis."

EDF stated that "the current arrangements are a form of market intervention and could have a negative impact on the market through the counter nomination process."

Ineos Chlor recognised "the potential impact of the current top up arrangements on market prices, and the significant market price distortion that could result from this. We are very concerned that this is not allowed to happen, and fully support action to remove such possible distortions from the market." It was also "concerned that without specific contracting by Transco, demand-side response resulting from high prices will be strictly limited. A review of demand-side response to day-ahead prices in January 2004 will confirm this." It believed that it was "inappropriate to formulate a solution targeted at maintaining security of supply based upon a response that may not be delivered. Such a course of action can only increase the likelihood of the security of supply being compromised, and end users being disconnected." Ineos Chlor suggested instead that Top-up be retained based on a lower winter severity (eg 1 in 10, instead of 1 in 50), or that UIOLI arrangements should be removed, or additional flexibility is added to manage Top-up targets be extended or additional demand-side contracting is undertaken by Transco.

RWE, in support of this Proposal pointed out that, in the event of implementation, Transco would not "have to enter the market to buy gas for counter injection which may never be required thus preventing the occurrence of significant market distortions this winter".

SSE, whilst stating its belief that as far as possible supply/demand balancing ought to be facilitated by a liquid and transparent market, suggested that "Transco should have ultimate oversight of security of supply in the event of market failure and should be able to take action to cover extreme circumstances. Our particular concern with this proposal is that it takes us from one extreme: a situation where Transco could in theory make unnecessary counter-nominations, because the monitor levels have been set too high, to another. To introduce an arrangement where Transco takes no action at all and its only remedy for a breach or potential breach of the 'safety monitor' is to declare an emergency is not, in our view, appropriate." SSE also expressed the understanding that "if top-up were removed and this proposal implemented all Transco would do is flag to the market that there is a risk, or a potential risk,

of a breach, which, if not remedied by the market, would lead to the declaration of a supply emergency."

SGD shared the concerns that "the top up monitor levels set by Transco for this winter are likely to have negative effects on the efficient working of the traded gas market. It would appear that counter nominations by Transco could result in gas prices rising much higher than market fundamentals would warrant, which would lead to higher gas prices being passed on to consumers. For this reason, we support measures to reduce the use of top up and/or to radically reduce the levels."

Terra also indicated that it was persuaded of the need for action. "If nothing is done we concur with the Ofgem view that, under existing arrangements, the first cold snap in November will lead to an unnecessary price spike(s). This will likely lead to higher prices than necessary for the remainder of winter. Urgent action must be taken. Despite this however we are concerned that removal of top up obligation is a major decision and that there may be better solutions." Terra suggested instead that the 1 in 50 severity might be "unduly cautious" and that introducing a lead-time of a week, for example, would be consistent with orderly, responsible and cost effective purchases. Terra expressed concern that whilst recognising economic theory, steps should have been taken by Dti and/or Ofgem to ensure in the event of "tightness in supply/demand" that the Continental Interconnector was prevented from exporting from the UK.

TGP in reviewing the current regime considered that "counter-nominations, when storage levels fall below the monitor level, will effectively isolate gas from the market and potentially creates a multiplier effect on spot prices. We are particularly concerned this may lead to a self-reinforcing negative scenario that encourages more gas to be withdrawn from storage and, as a result of Transco's mechanistic application of the rules, a marked reduction in the availability of peak supplies at the time they are most needed." In respect of the Proposal, TGP stated that removing Top-up obligations from Transco "also possesses the advantage of better incentivising those suppliers who are required to meet the domestic security of supply standard, since their risk profiles will be sharpened by no longer being able to rely upon NGT procuring top-up insurance on their behalf. Not only would this be logical with attempting to place incentives on those whose obligations it is to meet the relevant standards but it should also better reveal supply demand fundamentals and thus stimulate the cash out price to a level that is consistent with meeting peak demand. This may also lead to the better economic justification of projects that could lead to the provision of peak supply." TGP contrasted this with the current Top-up pricing mechanism that "may or may not provide the appropriate pricing signal on and before the peak day and undermines the economic justification for the provision of commercial top up services."

## **Transco Response**

Transco agrees that the present regime, might have a distorting effect on the gas market. Whilst UIOLI arrangements between the Storage Operators and their customers are a concern

in this respect, removal of these arrangements (which in relation to Medium and Long Duration Storage are not part of the Network Code and are therefore beyond the scope of the Network Code change process), would not remove all potential for Winter Injections to add distortions to the gas market. Transco notes the argument that providing information to the gas market and allowing that market to take action would be expected to be more economic and efficient than a regime that requires the Top up Manager to intervene directly to retain stocks. However, with the current regime a Winter Injection creates an imbalance in the Top-up Manager's account and the fact that withdrawals are inhibited creates a System Imbalance. This can only be resolved by additional gas at System Entry Points, which may already be totally committed, or through demand side response on the gas market. Regardless of the outcome of this Proposal there is therefore an existing reliance on the gas market and if the required response was not forthcoming, Transco would have to rely upon interruption, but only if the demand exceeded 85% peak day, or declare a gas emergency. Transco would also wish to point out that implementation, by removing the requirement for Winter Injections would reduce the direct participation of Transco within the gas market and is therefore more consistent with Transco's role as residual gas balancer.

Transco notes Ofgem's view in regard to the development of demand side contracts between Transco and end users expressed in its Top-up Conclusions document where it states that "this would be a less satisfactory option than removal of the top-up arrangements." "In the absence of top up, there is no need for a formal mechanism to demonstrate that demand side can and will respond .... Ofgem's preferred option would be to rely on the market".

Transco concurs with Ofgem's view that the market should provide the primary role of balancing supply and demand and that the System Operator should undertake the role of residual balancer. Transco believes that the removal of Top-up best aligns with these roles and responsibilities and is a superior solution to either changing the security criteria or widening the responsibility of the System Operator to engage in specific demand contracting. Were Top-up to be retained, a reduction in the security criteria would be a potential development (subject to any necessary HSE approval). However, this Modification Proposal focuses on the removal of Top-up for the reasons stated and consistent with the conclusions of Ofgem's review.

### **Monitor Levels**

Whilst not in support of this Proposal, BGT supported "the amendment of monitor levels so that they provide security to that part of demand side, which is unable to respond to market signals. Therefore referred to as 'protected by monitor'. Those supplies, which are able to enter arrangements to assist the management of supply/demand matching (protected by interruption), are excluded from any provision within the monitor." BGT also supported "the view that such changes to the calculation of monitor levels will serve to avoid unnecessary and inefficient costs, which would have been the case if all firm and LDZ interruptible sites continued to be 'protected by monitor'". However, BGT expressed concerns on the level of the monitors presented at the Planning and Security (including Storage) (PSS) sub-group meeting, particularly the short duration monitor which is associated, at present, with LNG. The concern expressed was that "relatively small stock changes could have a dramatic effect. Withdrawal of gas held within an LNG facility, based upon purely commercial analysis, could prompt a breach of the safety monitor and consequent declaration of emergency. Additionally,



the holders of gas in LNG will be aware that with the safety monitor set at this level, any gas below the 38% would be inaccessible and in some cases this could influence both the use of gas currently held and the future provision of LNG holdings." BGT suggested that taking action as a result of a simple breach in the Safety Monitor might oblige Transco "to declare an emergency when in fact there is no necessity to do so."

CSL recalled the discussion at the PSS meeting particularly that "loads interrupted would have to stay interrupted until the LNG safety monitor inventory became lower than the aggregate LNG inventory". CSL also stated that Transco was "asked to review the proposed monitor level(s) (LNG particularly) with the aim that after an initial load reduction there should be enough gas in LNG facilities to allow the interrupted loads to be reconnected provided this could be done with no more LNG being used at that point. It was suggested that consideration could be given to the pre-winter monitor level admitting a second 'difficult period' based on the 'day 2' demand levels in Transco's 1-in-50 load duration curve. Alternatively there might be some scope for amending the safety monitor levels by considering interactions with the 'safe run down' OM gas estimates."

### **Transco Response**

This Proposal does not seek to set specific monitor levels and these representations could be considered as comments on the monitor level calculations rather than as comments on the Proposal. Transco does recognise, however, that the impact of setting monitors at certain levels are legitimate concerns and is at present reviewing all the monitors to be set for 2004/5. This Proposal does identify how information on both monitors would be shared with the industry and this would give Users the opportunity to raise concerns each year. At present Transco is reviewing the Short Duration Monitor and in the event the stock level approached this level Transco would seek to apply the flexibility permitted within this Proposal. This includes reference to the demand forecast, which particularly in the later weeks of the Winter Period may allow Transco to avoid declaration of an emergency. Similarly, Transco would seek to avoid a declaration where re-allocation of monitors between Storage Types would serve that purpose. Once an emergency has been declared current procedures are based upon the principle of taking the minimum measures necessary. There would, for example, be no purpose in proceeding to Stage 2, which seeks to maximise supplies if Stage 1 (emergency interruption) would suffice. During an emergency there would also be scope for "derating" the emergency (eg from Stage 2 to Stage 1). Even within Stage 1, emergency interruption would only be exercised to the level required to safeguard supplies and under these circumstances all market and cash-out arrangements would continue. It is certainly possible that during a period of mild weather, whilst the System might be in emergency mode, the gas market might be operating normally with almost all interruptible Supply Points taking gas. Transco recognises a linkage between Operating Margins (OM) gas, which amongst other purposes, supports orderly run-down of the System and the requirement for a LNG monitor. However, this interaction is complex. In particular, the orderly run-down provision is not designed to cater for the possibility that shippers' stocks are depleted to levels inconsistent with the requirement of a 1 in 50 winter. Reliance on OM in place of the short duration safety monitor is therefore inappropriate. Transco does, however, intend to review this interaction fully prior to making the OM bookings for 2005/6.

### **Storage Stock Information**

CSL reiterated its position on publication of Storage Stocks as Operator of the Rough Storage Facility, which is the only facility defined in the Network Code as Long Duration. Therefore statements of Long Duration storage stocks would effectively be of Rough stocks. It stated no objection to the retrospective publication of Long Duration inventory levels, say weekly, if such information were published simultaneously and individually for every other UK storage facility. CSL stated that it did not "presently consent to the publication of Rough inventory data weekly alongside aggregated data for the other Storage Types, as would be envisaged by the proposed Code Clause Q5.2.7(a)."

CSL also expressed a concern that "publication of 'real-time' storage flows would expose any operational failures. CSL's obligation to 'hold customers whole' means that any operational failure results in us being exposed to the market for any resulting gas deficit or surplus. Clearly, unless such information were published even-handedly for all entry sources including producing fields this would be blatantly discriminatory. CSL naturally opposes such publication very strongly."

CSL referred to the PSS meeting and the discussion of "practical ways of giving shippers the storage information they would want in relation to safety monitors without jeopardising storage operators' reasonable commercial interests. The meeting developed a two-stage model. Transco would routinely display a 'traffic light' chart, showing for each storage type (eg long/medium/short duration) whether or not there is any risk of the monitor being breached within 24 and 48 hours. In addition, when (but only when) this chart shows a risk exists, then supplementary information would be published showing for the storage type the aggregate inventory at the start of the day, the relevant end-day monitor level and the current aggregate net nomination for that storage type."

RWE referred to obtaining permission of Storage Operators to disclose stock information and stated in respect of granting this permission "However, if they have not, and it is not possible for information to be provided in the form detailed in section Q. 5.2.7. of the draft legal text, we would have concerns about this proposals effectiveness."

Terra expressed concern that currently an "imbalance of information" existed, whilst recognising that some progress had been made. This included storage stock levels but also linepack and interconnector flows. Terra concluded that "there is scope for demand side response in the event of high prices" but it "is extremely difficult, perhaps impossible, to make any accurate estimate of the level of response at particular levels of price."

### **Transco Response**

Transco has recognised the concerns of Storage Operators and, with one exception, believes that aggregating the storage stock positions by Storage Facility Type would serve to retain the confidentiality that Storage Operators would seek. During discussions the suggestion was made that publication of weekly, as opposed to daily, stock summaries would alleviate the concerns of Storage Operators that find themselves in CSL's position and this is reflected in the legal text. The legal text reflects the belief that precise information on stock levels, from which Users could observe trends, would generate useful information to the gas market to supplement the proposed "traffic light" system, which would be triggered at least 48 hours prior to declaration of an emergency. We consider that this approach reflects the discussions and agreement reached at the PSS Workgroup meeting held to develop this Proposal and is

sufficient to meet the concerns of the Storage Operators. Transco does not consider it appropriate to address other information issues (eg linepack or Interconnector flows) within this Proposal.

### **Emergency Procedures**

BP expressed a view that robust procedures relating to "customers protected by isolation" were essential, and pointed out that full details of these procedures were not available in the Ofgem document. BP also expressed a lack of awareness of the details of "specific customers that would be 'protected by isolation'".

CSL commented that Transco "must take steps urgently to publicise what customers or classes of customer fall into each category, so that end-users and their shippers who are concerned at the classification have ample opportunity to seek changes."

Corus expressed concern that "Transco is proposing to identify a group of customers who could be physically isolated. These would include DM firm loads. No doubt for expediency, Transco would isolate the larger sites first. This would have a severe impact on large manufacturing sites such as steelworks."

Ineos Chlor also expressed the belief that additional powers should not be granted to Transco to disconnect end-users. Implications cited by Ineos Chlor of disconnection included the effect on risks that have been subject to hazard and risk assessments, based upon calculated frequencies of interruption.

SGD commented on the details of identifying sites that can be physically isolated in a short period of time particularly in the context of the "post-DN sale framework". SGD also drew attention to difficulties that have been experienced in contacting end user when emergency exercises have been conducted.

### **Transco Response**

Whilst a Proposal of this nature does serve to highlight elements of existing procedures, Transco would reiterate that the conduct of an emergency would not be changed if this Proposal were implemented. For example, the present emergency procedures already incorporate in principle, if not in words, the concept that certain sites are 'protected by isolation'. The existing principle is that NDM sites and all priority consumer sites are not isolated until an emergency progresses to Stage 4 and the Safety Monitor is designed to prevent the onset of this Stage. Definition of "Priority Consumers" was addressed in the Dti Consultation Paper "Gas Priority Consumers: May 1998" and in Ofgem's Decision Document "Priority Gas Customer Arrangements Modification of the Public Gas Transporter Licence: November 1999" the classification was set out in Annex A and discussed in the context of the responses received. Transco has recently issued summaries of the criteria to all Users and believes that there is clarity in respect of the processes to be followed for Users who wish to ensure that all such consumers are identified. The issue of management of an emergency in the post DN sale context is being addressed and would need to be whether this Proposal were implemented or not.

### **Emergency Instructions to Reduce Flows**

CSL pointed out that Transco had prepared this Proposal "on the assumption that they should then be entitled simply to instruct the relevant storage operators to reduce withdrawals to

whatever level is needed to (just) maintain the monitors – this would make the storage customers 'short', and increase 'spot' prices." CSL then went on to query whether this step had been envisaged in Ofgem's Conclusions Document. RWE queried why this provision had been reflected in the Section Z drafting.

### **Transco Response**

Transco believes that under GS(M)R, the NEC already has the ability to instruct relevant storage operators to reduce or curtail flows. Transco has been advised that this requirement needs to be reflected in Section Z.

### **Recalculation of Monitors and Reassignment amongst Storage Facility Types**

EDF requested further clarity that the Safety Monitor would be recalculated throughout the whole Winter Period. EDF also noticed that Storage Facility Type could be redetermined from time to time and raised the issue of placing "any storage sites in a potentially commercially sensitive situation, and at least 5 business days notice is given to the industry." Similarly, EDF suggested five business days notice in respect of reallocation of monitor levels.

### **Transco Response**

If implemented this Proposal would require Transco to keep under review information already notified within that Storage Year (Q5.2.5) and notify Users of any material changes. Transco believes that this would provide sufficient clarity. Transco believes that notifying Users of any reclassification of Storage Types by 31st May each year is sufficiently advance in respect of the Winter Period and that an additional five days would not serve any purpose. Whilst Transco would wish to notify Users in advance of any reassignment of Storage Monitors between Storage Facility Types it believes that circumstances might occur where only a decision made at short notice would prevent initiation of a gas emergency. In such circumstances Transco would seek to notify Users at the earliest opportunity of its actions.

### **Legal Drafting**

EDF queried the need for a change to Annex U-1 3.5. "At present this refers to Top-up WACOG as the price to be set for a Storage Gas transfer. It is proposed that the Operating Margins WACOG be used instead."

RWE suggested that the reference to K1.1.3 (a) was incorrect and similarly that "Safety Monitor" should be applied in Q 5.4.1.

In respect of Q1.2.3 (b) (iv), RWE expressed concern that both a potential and an actual breach of the Safety Monitor would become an additional reason for declaring a gas emergency and suggested alternative wording.

### **Transco Response**

Clearly it would be inappropriate to use the Top-up WACOG price for a Storage Gas Transfer where the concept no longer exists. It isn't entirely certain whether this clause would apply in the event of implementation of this Proposal but Transco believes that the principle is correct and suggest that it be retained as amended.

Transco believes that the amended wording to Q1.2.3 (b) (iv) and that Q5.4.2 provides sufficient comfort that an emergency would not be declared unnecessarily. In respect of the detailed drafting in respect of the reference and "Storage Monitor" term, Transco confirms that the drafting has been altered accordingly

### **Timing and Consultation**

BOC, in respect of removing Top-up, expressed the belief that there was insufficient time "to put such arrangements in place" for the forthcoming winter. Instead, BOC suggested a target for Winter 05/06.

BP referred to the timescales and stated in this context that it believed it be "imperative to demonstrate beyond reasonable doubt that the timescales suggested are necessary, and that the implied additional risk is fully justified." Whilst acknowledging that Top-up consultation has been in progress since May 2004 BP also pointed out that until more recently "a number of possible outcomes have existed". SSE expressed concern that all the necessary arrangements including Safety Case approval, changes to the Generic SCA and dissemination by Transco of the relevant information could be achieved "within the required timeframe (ie before 1 November) whilst affording all parties sufficient time to become familiar with the new arrangements. We believe that this places unacceptable uncertainty on the industry ahead of the coming winter."

### **Transco Response**

Whilst recognising the tight timescale, Transco believes that implementation can be achieved for the 2004/5 Winter, including the necessary information publication by Transco. Transco would not be able to implement this Proposal prior to the approval of its revised Safety Case.

### **Information from Transco**

BOC referred to Transco apparently using a "black box" to set monitor levels and indicated support for Ofgem and/or Dti investigating progress to make more information available.

SSE put forward a number of questions on calculation assumptions and details. This included details of how monitor levels would be calculated, more explicit details of Transco's Safety Case when referenced in the revised text, transparency of reallocation of Monitors between Storage Facility Types and how Transco intends to notify Users. SSE also suggested a textual amendment to Q5.2.7 (b).

Terra wondered why the "methodology used by Transco is not fully in the public domain" and suggested that lack of this information had "not been helpful to understanding the problem".

### **Transco Response**

Transco is currently in discussions with Ofgem on how best to inform the industry on the background assumptions and calculations behind the information it will be supplying if this Proposal were implemented. Transco believes that references to the Safety Case are clear and appropriate. Transco intends to publish monitors and storage stocks on its web-site and would make it clear to industry participants if the excess stock position reached the equivalent of two days withdrawal. Transco acknowledges that this aspect could be clearer in Q5.2.7 (b) of the legal text and has amended it accordingly.

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Implementation is not required to enable Transco to facilitate any such compliance. Compliance following implementation is, however, dependent upon the acceptance by HSE of Transco's associated revisions to its Safety Case. If the associated revisions to the Safety Case are not accepted by the HSE then approval of this Modification Proposal would put Transco in conflict with its safety obligations.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Transco is unaware of any such requirement.

**14. Programme of works required as a consequence of implementing the Modification Proposal**

Transco believes that such works would be minor and is already scheduling them to match the proposed date of implementation.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Subject to acceptance of a revised Safety Case by the HSE, Transco recommends implementation of this Proposal by 01/11/04.

**16. Recommendation concerning the implementation of the Modification Proposal**

In Ofgem's recent document "The Review of Top up Arrangements in Gas: Conclusions Document" Ofgem expressed concerns over the potential for the present Top-up arrangements to distort competition in the wholesale and storage markets. Users' comments on that conclusion and this Proposal indicated that these concerns are widely shared by gas industry participants. On this basis, Transco recommends that this Proposal be implemented, subject to acceptance of a revised Safety Case by the HSE. If such HSE approval was not granted, Transco would not recommend implementation of this Proposal as this would put it in conflict with its other legal and statutory obligations.

**17. Restrictive Trade Practices Act**

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

## 18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### **Section D**

*Amend paragraph 5.7 of Annex D-1 to read as follows:*

~~“Other than in respect of a Top-up Market Offer, a~~ A Market Offer will not be capable of acceptance by the Trading Participant posting the Market Offer.”

### **Section E**

*Amend paragraph 2.2.4 to read as follows:*

~~“Where (by virtue of being Shrinkage Provider or Top-Up Manager or for Operating Margins Purposes or otherwise) Transco is party to an agreement pursuant to which a person is appointed as User Agent pursuant to paragraph 2.2.1, no provision of such agreement and nothing done by Transco pursuant to such agreement shall modify or take effect as a waiver of any provision of the Code.”~~

*Amend paragraph 4.1.3 to read as follows:*

~~“The Unauthorised Gas Flow shall not be taken into account and shall not be treated as an UDQI or UDQO for the purposes of determining the User's Daily Imbalance under paragraph 5, and shall not be a relevant UDQI or relevant UDQO for the purposes of determining Balancing Neutrality Charges under Section F4, or Reconciliation Neutrality Charges under Section F6 or Top-up Neutrality Charges under Section P6.4, or for the purposes of calculating the UDQI under Section B3.5.5.”~~

### **Section F**

*Amend paragraph 4.1.2(a) to read as follows:*

~~““**relevant User**” means any User other than the Shrinkage Provider, the Top-up Manager, and Transco when acting for Operating Margins Purposes;”~~

*Amend paragraph 6.1.3(a) to read as follows:*

~~““**relevant User**” means any User other than the Top-up Manager, the Shrinkage Provider and Transco when acting for Operating Margins Purposes;”~~

### **Section G**

*Delete the text of paragraph 1.15.7 and replace with “Not used”.*

*Delete the text of paragraph 6.3.10 and replace with “Not used”.*

*Delete the text of paragraph 6.9.8(d) and replace with “Not used”.*

### **Section K**

*Amend paragraph 1.3.3(a) to read as follows:*

"Balancing Neutrality Charges, and Reconciliation Neutrality Charges ~~and Top-up Neutrality Charges~~ are not payable by or to Transco for Operating Margins Purposes;"

*Amend paragraph 3.2.5 to read as follows:*

"Where this would be consistent with the requirements of paragraph 3.4.1 ~~or (as the case may be) Section P2.7.4~~, a Relevant System Manager may choose to make all or part of its Margins Gas Procurement Arrangements ~~or (as the case may be) its Top-Up Gas Procurement Arrangements~~ in respect of any deficit Storage Facility by arranging for the withdrawal from a surplus Storage Facility and injection into a deficit Storage Facility in the relevant Storage Year of a quantity of gas not in aggregate exceeding the lesser of the remaining surplus and the remaining deficit (the aggregate quantity of gas which is to be so withdrawn and injected, the "**Carry-Across Gas**")."

*Amend paragraph 3.2.6(a) to read as follows:*

"a "**Relevant System Manager**" is: ~~(i) Transco acting for Operating Margins Purposes; and (ii) the Top-up Manager in accordance with Section P;~~"

*Amend paragraph 3.2.6(b) to read as follows:*

"references to the amount of Storage Space held by a Relevant System Manager are to the amount held pursuant to the relevant provisions of this Section K ~~or Section P;~~"

*Amend paragraph 3.2.6(c) to read as follows:*

"relevant WACOG is Operating Margins WACOG ~~or (as the case may be) Top-up WACOG~~, at the end of the preceding Storage Year."

*Amend the final paragraph of paragraph 3.2.7 to read as follows:*

"for the purposes of avoiding or limiting or curing (in accordance with the relevant provisions of this Section K ~~or Section P or R~~) a deficiency of gas-in-storage by reference to the Operating Margins Profile, ~~Remaining Stored Gas Requirement~~ or Aggregate Weekly Minimum Requirement respectively."

*Amend paragraph 3.3.2(f)(ii) to read as follows:*

"may (where it provides for ..... (where paragraph 3.3.7 applies) in Margins Gas Procurement Arrangements ~~or (as the case may be) Top-Up Gas Procurement Arrangements;~~"

*Amend paragraph 3.3.5 to read as follows:*

"If after the tender under paragraph ..... its Storage Space) shall be costs of the Relevant System Manager for the purposes of this Section K ~~or Section P.~~"

*Amend paragraph 3.5.2(e) to read as follows:*

"make Storage Gas Transfers (as transferee) on terms requiring payment ~~and/or requiring the Top-up Manager to make a corresponding Storage Gas Transfer (as transferor) by the end of the relevant Storage Year or (to the extent of and in place of a Storage Gas Transfer it would otherwise make under paragraph 3.2 or 3.3) in the following Storage Year~~, and upon any other terms as to payment and quantity;"

*Amend paragraph 3.5.4 to read as follows:*



“Without prejudice to paragraph 3.5.3, Transco may procure gas (in accordance with paragraph 3.2) for Operating Margins Purposes and on behalf of ~~the Top-up Manager and~~ the Shrinkage Provider on an integrated basis; but Transco shall in any event maintain separate records of the quantities of gas procured for Operating Margins Purposes ~~and for the Top-up Manager and~~ the Shrinkage Provider.”

*Delete the text of paragraph 3.7.1(b) and replace with “Not used”.*

*Delete the text of paragraph 4.2.4(a) and replace with “Not used”.*

*Amend paragraph 4.4.1(a) to read as follows:*

“the aggregate (for each Storage Facility for Operating Margins Purposes) of the quantities of gas: ~~(i) subject to Storage Gas Transfers under paragraph 3.3.2 in favour of the Top-up Manager, and~~ (ii) subject to Residual Gas Transfers (as Residual Surplus Gas) under paragraph 3.4, multiplied by Operating Margins WACOG for the relevant Storage Facility (as at the end of the Storage Year following which such transfers are made), and”

## **Section N**

*Amend paragraph 4.4.2(h) to read as follows:*

“shall not be required to pay Scheduling Charges in respect of Output Nominations, nor to pay Balancing Neutrality Charges, or Reconciliation Neutrality Charges ~~or Top-up Neutrality Charges.~~”

## **Section O**

*Amend paragraph 1.2.3(b) to read as follows:*

“further information which may be required for the purposes of the Code (in particular, Section PQ) or which Transco may decide to include in such document.”

*Amend the heading of paragraph 4 to read as follows:*

## **“TEN YEAR STATEMENT AND ~~TOP-UP~~ GS(M)R SAFETY CASE STORAGE VOLUME ESTIMATES”**

*Amend the heading of paragraph 4.2 to read as follows:*

“~~Top-up~~ GS(M)R Safety Case Storage Volume details”

*Amend paragraph 4.2.1 to read as follows:*

“Transco will prepare and publish as ‘GS(M)R Safety Case Storage Volume Top-Up Estimates’, by the time such estimates are required for the purposes of Section PQ (and accordingly before preparing the Ten Year Statement) estimates for year 1 of:

- (a) System 1-in-20 peak day demand and System 1-in-50 Severe Annual Demand, and
- (b) maximum daily supply for the System as a whole,

which will, subject to paragraph 4.2.5, be the values thereof used for the purposes of the Code (including those of Section PQ).”

*Amend paragraph 4.2.2 to read as follows:*

~~“The Top-Up Estimated GS(M)R Safety Case Storage Volume will state the assumptions as to interruptible demand (in accordance with paragraph 2.1.3) and availability of gas for supply (in accordance with paragraph 2.2.2) made for the purposes of the estimates made pursuant to paragraph 4.2.1.”~~

*Amend paragraph 4.2.3 to read as follows:*

“Without prejudice to the generality of paragraph 4.2.2, the GS(M)R Safety Case Storage Volume~~Top-Up Estimates~~ will include assumptions as respects demand and supply at any System Point at which an interconnector (connecting the System with a pipeline system in another country) is connected to the System.”

*Amend paragraph 4.2.4 to read as follows:*

“The Ten Year Statement may contain up-dated details of the matters of which details for year 1 are contained in the GS(M)R Safety Case Storage Volume~~Top-Up Estimates~~, notwithstanding which the details in the GS(M)R Safety Case Storage Volume~~Top-Up Estimates~~ will prevail for the purposes of the Code.”

*Amend paragraph 4.2.5 to read as follows:*

“Transco may (but shall not be obliged to) revise estimates under paragraph 4.2.1, on any date from 1st May up to and including 1st October in year 1, for the purposes of Section ~~P2.9Q~~.”

## **Section P**

*Delete Section P in its entirety and replace with “Not used”.*

## **Section Q**

*Add a new paragraph 1.2.3(b)(iv) as follows:*

“or a potential or actual breach of a Safety Monitor.”

*Amend paragraph 3.2.1 to read as follows:*

“Emergency Steps may require (in the case of a Network Gas Supply Emergency) increases and/or reductions in deliveries of gas to the System, and (in the case of any Gas Supply Emergency) reductions in the offtake of gas from the System.”

*Add the following as a new paragraph 5:*

## **“5 SAFETY MONITOR AND FIRM GAS MONITOR**

### **5.1 Introduction**

5.1.1 For the purposes of paragraph 5:

(a) “Annual Firm Severe Demand” means that element of the 1 in 50 Severe Annual Demand which is attributable to all Firm Supply Points;

(b) “Annual NDM/Priority Severe Demand” means that element of the 1 in 50 Severe Annual Demand which is attributable to those Supply Points identified in the Transco Safety Case as being “protected by monitor”;

- (c) “**Firm Gas Monitor**” means, for each day of the Winter Period and each Storage Facility Type, that portion of the Stored Firm Gas Requirement allocated in aggregate to that Storage Facility Type by Transco;
- (d) “**Peak Firm Demand**” means the peak day demand at Firm Supply Points;
- (e) “**Peak NDM/Priority Demand**” means the peak day demand at those Supply Points identified in the Transco Safety Case as being “protected by monitor”;
- (f) “**Safety Monitor**” means, for each day of the Winter Period and each Storage Facility Type, that portion of the Stored Safety Gas Requirement allocated in aggregate to that Storage Facility Type in accordance with the principles set out in the Transco Safety Case, together with an amount of gas for each Storage Facility Type to permit the safe shutdown of those Supply Points not identified in the Transco Safety Case as being “protected by monitor”;
- (g) “**Storage Facility Type**” means one of the types (as determined by Transco from time to time and notified to Users pursuant to paragraph 5.2.1(f) of Storage Facility or (where the context requires) all Storage Facilities of such a type;
- (h) “**Storage Firm Deliverability Requirement**” means the amount by which the Peak Firm Demand exceeds the maximum daily supply;
- (i) “**Storage Safety Deliverability Requirement**” means the amount by which the Peak NDM/Priority Severe Demand exceeds the maximum daily supply;
- (j) “**Stored Firm Gas Requirement**” means the amount (in kWh) by which the Annual Firm Severe Demand exceeds the maximum daily supply;
- (k) “**Stored Safety Gas Requirement**” means the amount (in kWh) by which the Annual NDM/Priority Demand exceeds the level of demand equal to the maximum daily supply; and
- (l) “**Transco Safety Case**” means the safety case (in accordance with Regulation 2(5)) of Transco acting in its capacity as a gas transporter.

## **5.2 Information Requirements**

5.2.1 Transco will, by 31 May in each Gas Year, notify Users of the following in respect of the coming Winter Period:

- (a) Stored Safety Gas Requirement;
- (b) Storage Safety Deliverability Requirement;
- (c) Stored Firm Gas Requirement;
- (d) Storage Firm Deliverability Requirement;
- (e) maximum daily supply; and
- (f) the number and designation of Storage Facility Types, together with the classification criteria used in the determination of those Storage Facility Types and (where the classification criteria has changed from that used in respect of the previous Winter Period) details of any change to such classification criteria.

5.2.2 Transco will, by 31 May in each Gas Year, determine whether the available Storage Space and/or Storage Deliverability is in aggregate less than the quantities detailed in paragraph 5.2.1(a) to (d) and shall notify Users of any shortfall and the extent thereof. In this event, the Safety Monitor and the Firm Gas Monitor notified pursuant to paragraph 5.2.3 will reflect the available Storage Space and/or Storage Deliverability.

5.2.3 Transco will, by 1 October in each Gas Year, notify Users of the Safety Monitor and the Firm Gas Monitor for each day of the coming Winter Period in respect of each Storage Facility Type.

5.2.4 Calculations of available Storage Space and/or Storage Deliverability made pursuant to this paragraph 5 shall exclude:

- (a) Storage Capacity booked by Transco for Operating Margins Purposes; and
- (b) Storage Capacity in respect of Storage Facilities where there are relevant operational and/or physical characteristics that would make use of their Storage Capacity and/or gas-in-storage inappropriate in the calculation of any of the information specified in paragraphs 5.2.1, 5.2.2 and/or 5.2.3.

5.2.5 Transco will keep under review the information previously notified pursuant to paragraphs 5.2.1, 5.2.2 and/or 5.2.3, and may:

- (a) reallocate the Safety Monitor and/or the Firm Gas Monitor between Storage Facility Types in order to enhance the security provided by current storage stocks;
- (b) reduce a Safety Monitor and/or a Firm Gas Monitor to reflect longer-term demand forecasts (for example, during the later Days of the Winter Period); and
- (c) adjust a Safety Monitor and/or a Firm Gas Monitor to reflect the occurrence of severe weather.

5.2.6 Where Transco undertakes any of the actions specified in paragraph 5.2.5, Transco will notify Users of any material changes in the information previously notified pursuant to paragraphs 5.2.1, 5.2.2 and/or 5.2.3.

5.2.7 Transco will:-

- (a) notify Users, on a weekly basis, of the aggregate physical gas-in-storage level (in kWh) in each Storage Facility Type; and
- (b) where Transco calculates that the aggregate physical gas-in-storage level in a Storage Facility Type exceeds the Safety Monitor for that Storage Facility Type by a quantity (in kWh) equal to or less than the amount of gas that could be withdrawn from that Storage Facility Type in two (2) Days at the maximum withdrawal rate applicable to that Storage Facility Type, notify Users of:
  - (i) the quantity (in kWh) by which the physical gas-in-storage levels of that Storage Facility Type exceeds the Safety Monitor for that Storage Facility Type; and
  - (ii) the sum of all Storage Withdrawal Nominations for all Storage Facilities of that Storage Facility Type.

These physical gas-in-storage levels and the maximum withdrawal rate may reflect gas-in-storage and other information provided by the relevant Storage Operator(s), as well as Input and Output Nominations

5.2.8 Transco shall notify all Users of potential or actual breaches of either a Safety Monitor or a Firm Gas Monitor as a result of:

- (a) insufficient bookings of Storage Space and/or Storage Deliverability as notified to Transco by the relevant Storage Operator(s);
- (b) anticipated shortfall of gas-in-storage based upon current stock levels and the injection and withdrawal information notified to Transco by the relevant Storage Operator(s); or
- (c) Renominations or other relevant within day information.

### **5.3 Storage Information**

5.3.1 Transco shall have access to such details of the use of a Storage Facility by all Storage Users as may be provided for under the relevant Storage Connection Agreement.

5.3.2 In particular, each Storage Operator will provide to Transco:

- (a) where Transco so requests, the details of the amounts of aggregate Storage Capacity allocated to Storage Users for each Storage Facility for the Storage Year or remaining part of the Storage Year pursuant to applications for Storage Capacity under the relevant Storage Terms;
- (b) on a daily basis throughout the Storage Year, details for each Storage Facility of Storage Users' aggregate Storage Capacity, injections, withdrawals and gas-in-storage; and
- (c) where Transco so requests, details of the Applicable Total Storage Space, the Applicable Total Storage Deliverability and Maximum Injection Rate of each Storage Facility.

5.3.3 Each Storage Operator shall ensure that its Storage Terms permit the disclosure by the Storage Operator to Transco of the information referred to in paragraph 5.3.2(a) and (b) and the subsequent publication of this information by Transco pursuant to the provisions of this paragraph 5 (or as otherwise required by the Code).

### **5.4 Actions to Prevent Monitor Breaches**

5.4.1 Other than notifying Users in accordance with paragraph 5.2.8, and subject to taking such steps as it is required to take under the Transco Safety Case, Transco will not take any specific action as a consequence of identifying a potential or actual breach of a Safety Monitor or a Firm Gas Monitor.

5.4.2 Where Transco has assessed that any actions taken by it pursuant to the Transco Safety Case and any actions taken by Users in response to the notification made under paragraph 5.2.8 have not been or, in Transco's opinion, would not be sufficient to prevent a breach of a Safety Monitor, Transco shall liaise with the Network Emergency Coordinator to declare a Network Gas Supply Emergency."

## **Section R**

*Amend paragraph 1.8.1 to read as follows:*

"Transco may be a Storage User in respect of Storage Facilities for Operating Margins purposes pursuant to Section K, ~~as Top-up Manager pursuant to Section P~~ or as Shrinkage Provider pursuant to Section N."

*Amend paragraph 1.8.2 to read as follows:*

"Where Transco (as Storage User) has agreed (pursuant to the relevant Storage Connection Agreement or the relevant Storage Terms) with the Storage Operator, for Operating Margins Purposes ~~or as Top-up~~

~~Manager~~, terms and conditions for the provision of storage services which differ from the published standard Storage Terms applying to other Storage Users, copies of any such agreed differences shall be made available to Users on request.”

*Amend paragraph 4.1.6 to read as follows:*

“This paragraph 4 shall not apply to Transco when acting for Operating Margins Purposes as a Storage User of a Constrained Storage Facility, and references in this paragraph 4 to Users do not include a reference to Transco when so acting; ~~but references in this paragraph 4, other than in paragraph 4.6, to Users do include the Top-up Manager.~~”

*Delete the text of paragraph 4.7 and replace with “Not used”.*

## **Section S**

*Amend paragraph 1.6.2(a) to read as follows:*

“any amount has been included in any Adjustment Neutrality Amount, ~~or Adjustment Reconciliation Neutrality Amount, or Top-up Recovery Adjustment Amount,~~ pursuant to Section F4.5.3(a)(ii), ~~or Section F6.5.1(a)(ii) or Section P6.3.7(a)(ii),~~ by reason of any amount (as therein referred to) being unpaid by a User;”

*Delete the text of paragraph 5(f) of Annex S-1 and replace with “Not used”.*

## **Section U**

*Amend the definition of “I” in paragraph 3.5 of Annex U-1 to read as follows:*

“the ~~Top-up~~Operating Margins WACOG (in pence per kWh) for the Transfer Storage Facility on the date the Operating Margins WACOG was last calculated ~~WACOG Calculation Date~~ before the transfer date;”

## **Section V**

*Delete the text of paragraph 7.1.2(a) and replace with “Not used”.*

*Amend paragraph 12.1.2(a) to read as follows:*

“**“Neutrality Charges”** means Balancing Neutrality Charges, ~~Top-up Neutrality Charges~~ and Reconciliation Neutrality Charges;”

## **Section W**

*Amend the definition of “Energy Balancing charges” in paragraph 1 to read as follows:*

“**“Energy Balancing Charges”**: Market Balancing Action Charges, other charges payable in respect of Eligible Balancing Actions pursuant to Contingency Balancing Arrangements, Physical Renomination Incentive Charges, Clearing Charges in respect of Unauthorised Gas Flows, Balancing Charges, Balancing Neutrality Charges, Reconciliation Clearing Charges, User Aggregate Reconciliation Clearing Charges, and Reconciliation Neutrality Charges ~~and Top-up Neutrality Charges,~~”

## **Section Z**

*Amend paragraph 1.8 to read as follows:*

"Transco LNG Storage and its Users agree that where the application of this Section Z in respect of ~~the Top-up Manager or of Transco~~ when acting for Operating Margins Purposes is modified pursuant to Sections K or P, the provisions of ~~those that~~ Sections shall prevail over those of this Section Z."

*Delete the text of paragraph 3.7.10 and replace with "Not used".*

*Amend paragraph 5.4.6 to read as follows:*

"The restrictions under this paragraph 5.4 applying to late injections do not apply to ~~the Top-up Manager or Transco~~ for Operating Margins Purposes."

*Amend paragraph 6.7.1 to read as follows:*

"On any Day during a Gas Supply Emergency Transco LNG Storage may take steps to increase and/or decrease (as the case may be) the flow rates at a Transco LNG Storage facility in order to comply with Transco's instructions ....."

## **Transitional Document Part VII**

*Delete the text of paragraph 5.10 and replaced with "Not used".*

Signed for and on behalf of Transco.

Signature:

**Richard Court**  
**Commercial Frameworks Manager**  
**NT & T**

Date:

**Gas and Electricity Markets Authority Response:**

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0710**, version **1.0** dated **21/09/2004**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

**Process Manager - Network Code**  
**Transco**

Date:



## Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
  - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
  - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.