

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0710**  
**"Removal of Top-up Arrangements"**  
**Version 1.0**

**Date:** 20/08/2004

**Proposed Implementation Date:** 01/11/2004

**Urgency:** Urgent

**Justification**

**For Urgency....**

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". Therefore, Transco requests that this Proposal is considered as urgent.

The proposed timescales for progression of this Modification Proposal are as follows:

<b>Action</b>	<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)	07/09/04
Submit Final Modification Report to Ofgem	17/09/04
Ofgem Decision	30/09/04

**For the Proposal.....**

In Ofgem's recent document 'The Review of Top-up Arrangements in Gas: Conclusions Document' it concludes that Top-up arrangements should be removed from the Network Code. In addition, the Health and Safety Executive (HSE) has clarified that its safety case consideration is to ensure that the risk of a supply emergency is minimised. Transco has therefore submitted a revised safety case to the HSE, which would remove Top-up from the safety case, and replace it with the concept of a safety monitor. As a result of Ofgem's document and consistent with the proposed safety case revision Transco has raised this Modification Proposal.

This Proposal seeks to better secure effective competition between relevant shippers and between relevant suppliers 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.

The Proposal also seeks to provide further reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers, by removing processes which may undermine the commercial incentives on companies to deliver secure supplies.

Although this Proposal includes the removal of constrained Top-up arrangements it should be noted that Transco intends to raise a separate Modification Proposal with the purpose of reinstating Constrained Top-up. This is consistent with Ofgem's view as stated in its document, 'The Review of Top-up Arrangements in Gas: Conclusions Document', which is that there remains an ongoing provision for constrained LNG in the Network Code.

### **Nature of 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 timescales.

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.

### **Purpose of Proposal**

The purpose of this Proposal is to ensure that Transco can continue to meet its obligations under its Safety Case and GT Licence (particularly those relating to the safe and efficient operation of the System) whilst removing a potential source of distortion to competition in the wholesale and storage markets.

### **Consequence of not making this change**

In Ofgem's document, 'The Review of Top-up Arrangements in Gas', it reviews an option to "do nothing", i.e. retain the existing Top-up arrangements. Ofgem

concluded that retention of the existing Top-up arrangements could generate market distortions and undermine security of supply.

### **Area of Network Code Concerned**

Section P, Section Q, Section R 4 and all other references to Section P and Top-up

## **Modification Proposal Number 0710 Removal of Top-up Arrangements Draft Legal 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 1.1.3(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 P2.7.1~~, 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 Estimates~~~~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 5.3.1) 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 Type exceeds the Safety Monitor for that Storage Facility Type by a quantity (in kWh) equivalent to 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 Storage 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”.*

**Proposer's Representative**

Eddie J Blackburn (Transco)

**Proposer**

Richard Hewitt (Transco)

**Signature**

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