

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0660
"Winter Injection Cost Allocation Based on User Daily Offtakes"
Version 2.0

Date: 24/10/2003

Proposed Implementation Date: 01/12/2003

Urgency: Urgent

Justification

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

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

Transco, as Top-up Manager, monitors storage stocks throughout the Winter Period to ensure that security of supply would be maintained even if that winter were of a 1 in 50 severity as referenced in the Gas Supplier Licence. If the Top-up Manager determined that Users' withdrawal nominations would cause the storage stocks to fall below the calculated monitor level, then Winter Injections would endeavour to ensure that stocks would be retained at this monitor level. In this Winter Injection situation, the Top-up Manager would secure the storage capacity, procure the gas required and make the Winter Injection nomination. The costs of this activity are at present attributed to the Top-up Manager, not Users, even though the depletion of storage stocks would indicate either a lack of supply-side provision or demand flexibility consistent with satisfying a 1 in 50 demand profile. This would indicate that incentives consistent with the 1 in 50 security criteria would be better achieved by the costs of Winter Injection being attributed to Users.

By attributing the costs that might arise from Winter Injections on the basis of Users' offtakes on the Day(s) where the Top-up Manager made a Winter Injection, implementation of this Modification Proposal would strengthen the incentives in place for relevant suppliers to secure that the domestic supply security standards are being met. For example, implementation might promote the greater use of demand-side flexibility.

Transco believes that there is a significant risk of cost generation this winter arising from Winter Injection requirements. Therefore, Transco believes it is essential that a timely decision on this Proposal is made. Such a decision would be on the basis that implementation might provide more appropriate incentives to Users and that this would be consistent with ensuring that domestic supply security standards are met for the forthcoming winter.

Nature of Proposal

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

- The net costs arising from Winter Injections would be established over the Winter Period ("**Net Counter-Injection Costs**").
- A basis (expressed in kWh) would be determined over which such costs would be recovered ("**Recovery Quantity**").
- A unit charge would be derived from the Net Counter-Injection Costs and the Recovery Quantity ("**Counter-Injection Charge Rate**"). This charge rate would be applied to the individual User contributions to the Recovery Quantity.
- The approach to derive Net Counter-Injection Costs would allow for the fact that Top-up revenue, either resulting from acceptance of a Top-up Market Offer or, as a result of subsequent Top-up stock disposal, does not separately identify gas procured prior to the Winter Period and gas procured through Winter Injections. It is therefore proposed that, as such revenues in future winters might arise in respect of Top-up gas purchased ahead of the winter, the resultant revenues be attributed in cost proportions in order to identify net costs arising from pre-winter and within-winter Top-up procurement.
- The Recovery Quantity would be set to equal the sum of all Users' UDQOs (but excluding UDQOs associated with storage injections) on Days where the Top-up Manager made Winter Injections.
- The Counter-Injection Charge Rate would be set as the Net Counter-Injection Costs divided by the Recovery Quantity.

Purpose of Proposal

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

Consequence of not making this change

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

Area of Network Code Concerned

Section P: Top-Up Storage

DRAFT LEGAL TEXT SECTION P: TOP-UP STORAGE

Add new paragraphs 3.4.8, 3.4.9, 3.4.10, 3.4.11, 3.4.12, 3.4.13, 3.4.14 and 3.4.15 to read as follows:

"3.4.8 Where the Top-up Manager determines there is a Winter Top-up Injection Requirement for a Storage Facility Type in respect of a Day pursuant to paragraph 3.4.1, the Top-up Manager shall notify Users by UK Link Communication by not later than 21:00 hours on the Preceding Day.

3.4.9 Where the Top-Up Manager has given notice under paragraph 3.4.8 and a User or Users withdraw gas from a relevant Storage Facility ("**relevant facility**") on a relevant Day, paragraph 3.4.10 shall apply.

3.4.10 Where this paragraph applies:

- (a) all Winter Injection Costs, which but for this paragraph 3.4.10 would or may be Top-up Costs, shall not be Top-up Costs for the purposes of paragraph 6;
- (b) all Winter Injection Revenues, which but for this paragraph 3.4.10 would or may be Top-up Revenues, shall not be Top-up Revenues for the purposes of paragraph 6; and
- (c) all Net Winter Injection Costs shall (if positive) be payable by Users to the Top-up Manager and (if negative) be payable by the Top-up Manager to Users, in each case in accordance with the provisions of paragraph 3.4.12.

3.4.11 For the purposes of paragraph 3.4.10:

- (a) the "**Winter Injection Costs**" are the total amounts payable by the Top-up Manager in respect of Winter Injection Gas injected on a Day:-
 - (i) under or in respect of the Top-up Gas Procurement Arrangements;
 - (ii) by way of Transportation Charges in respect of Storage Connection Points and other System Entry Points;
 - (iii) under Section F4 in respect of Balancing Charges;
 - (iv) by way of Storage Capacity Charges in respect of Storage Capacity in Top-up Storage Facilities;

- (v) by way of Storage Injection Charges in respect of injection to Top-up Storage Facilities;
 - (vi) by way of Storage Withdrawal Charges in respect of withdrawal;
 - (vii) pursuant to any other provision of the Code by which (as User) the Top-up Manager is required to make any payment;
- (b) the "**Winter Injection Revenues**" are the total amounts realised by the Top-up Manager in respect of Winter Injection Gas injected on a Day:-
- (i) in respect of Top-up Storage Transfers under paragraph 4;
 - (ii) under Section F4 in respect of Balancing Charges;
 - (iii) subject to paragraph 6.1.4, by way of Market Balancing Action Charges in respect of Top-up Market Offers made:
 - (1) for Days in the Winter Period; and
 - (2) for Days not in the Winter Period.
 - (iv) in respect of any Storage Withdrawal Nomination in respect of Winter Injection Gas made by it as Transferor Storage User;

provided that, where the Top-up Manager realises revenues on a Day, and it is not possible to determine whether such revenues relate to Winter Injection Gas or other gas procured by the Top-up Manager, a proportion of such revenues shall be deemed to be in respect of Winter Injection Gas on the basis of the proportion which Winter Injection Gas procured on that Day bears to the total quantity of gas (including Winter Injection Gas) procured by the Top-up Manager on that Day; and

- (c) the "**Net Winter Injection Costs**" are the total Winter Injection Costs less total Winter Injection Revenues (and shall be positive if Winter Injection Costs exceed total Winter Injection Revenues and negative if Winter Injection Revenues exceed total Winter Injection Costs).

3.4.12 Where:-

- (a) Net Winter Injection Costs for the Winter Period are positive and are accordingly payable by Users to the Top-up Manager pursuant to paragraph 3.4.10(c), each relevant User shall pay to the Top-up Manager a charge ("**Winter Injection Incentive Charge**") calculated in accordance with the provisions of paragraph 3.4.13 below; and
- (b) Net Winter Injection Costs for the Winter Period are negative and are accordingly payable by the Top-up Manager to Users pursuant to paragraph 3.4.10(c), the Top-up Manager shall pay to each relevant User a charge ("**Winter Injection Incentive Charge**") calculated in accordance with the provisions of paragraph 3.4.13 below.

3.4.13 In respect of each Day for which a Winter Injection Incentive Charge is payable, it shall be calculated in respect of each relevant User as being the amount of the Net Winter Injection Costs

for the Day divided by the sum of all relevant UDQOs for the Day multiplied by the sum of that relevant User's relevant UDQOs for such Day.

3.4.14 For the purposes of paragraph 3.4.13, “**relevant User**” and “**relevant UDQO**” shall have the meanings given to such terms in paragraph 6.4.2.

3.4.15 Top-up Winter Injection Incentive Charges shall be invoiced and are payable in accordance with Section S.

Proposer's Representative

John Bradley (Transco)

Proposer

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Signature

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