

Draft Modification Report
Enhancements to Winter Injection Process
Modification Reference Number 0671
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The original Proposal was as follows:

"It is proposed that the calculation of Top-up Market Offer Price (TMOP) be amended to ensure that it is based upon prices available prior to the Day and that this price reflects the cost of firm Storage Capacity.

For the Storage Capacity unit rate element (C/T) it is proposed that:

- If the Top-up Manager had made one or more firm Storage Capacity bookings prior to the Winter Period at that Storage Facility, further acquisition of Storage Capacity for Winter Injection would not reduce the unit rate element to a lower value than that represented by these firm bookings.
- If the Top-up Manager had not made a booking prior to the Winter Period at that Storage Facility, the Storage Capacity unit rate element would be set to the weighted average price of firm Storage Capacity sold by Transco LNG Storage to Users in respect of that Storage Year.

For the System Entry Overrun Charge element (E) within TMOP it is proposed that this be set each month to the value of the System Entry Overrun Charges applying to the relevant System Entry Point at 13.00 on the last Day of the previous month .

Transco has discussed various price alternatives for both the E and C/T terms within the NT&T Workstream and would welcome any alternative suggestions within representations.

In addition, it is proposed that the Top-up Manager be permitted to take account of all relevant information Transco has available in respect of the Day in determining the quantity to be nominated as a Winter Injection. It is also proposed that the Top-up Manager be permitted the full range of nomination timing flexibility permitted to Users under the Network Code.

Finally, to ensure that gas procured by the Top-up Manager is disposed efficiently when gas-in-storage exceeds monitor levels, it is proposed that the present restriction which only allows the Top-up Manager to review such surpluses at the end of each month, be removed to allow a daily review and adjustment of stocks."

This Proposal was discussed by the NT&T Workstream. The main discussion centred on the existing principles behind consistently setting the TMOP at an appropriate level to incentivise Shippers. These were as follows:

- For Users that had a negative energy imbalance on the Day when a Top-up Market Offer were accepted, TMOP would probably set the SMP_{buy} at which they would be cashed-out.
- Users who had made use of adequate security of supply provisions to prevent a negative imbalance, would be able to avoid being cashed-out at SMP_{buy} and might even have the opportunity of trading any surplus energy at a price slightly below the TMOP.

- The mitigation available to Users who had made inadequate supply of security arrangements and were consequently facing the prospect of a negative imbalance, would be from trades which, as outlined above, might be set at prices only slightly below TMOP.

If it were accepted that a TMOP of this magnitude should exist, the Workstream accepted that it should continue to apply even if storage capacity were only acquired by the Top-up Manager on an interruptible basis. Implementation of this Modification Proposal would establish this principle.

Whilst the magnitude of TMOP was considered as the more important aspect of this Proposal, the Workstream did accept that a minor amendment to the original Proposal in respect of the System Entry Overrun Charge element was desirable. Rather than base this on the previous month, it was accepted that this element could be based on the average of the previous Winter Period.

2. Transco's Opinion

Whilst acknowledging Ofgem's suggestion of a review of the role that Top-up plays within the wider context of security of supply in its recent decision letter for Modification Proposals 0659 and 0660, Transco believes it is important to ensure that the principles behind the establishment of Top-up are consistently applied for the current Top-up mechanism. Transco also believes that where sensible enhancements to the present regime are identified for which implementation would be consistent with furtherance of the relevant objectives, these enhancements should be raised as Network Code Modification Proposals.

Transco bases this assessment on the belief that a more fundamental review of the role of Top-up could not be completed before the end of the present Winter Period. A policy of enhancement of the present regime continues the approach adopted in the implemented Modification Proposal 0504 which was pursued in parallel with another Modification Proposal (0472) that concentrated on the more fundamental principle of Top-up cost allocation.

This Modification Proposal addresses the consistency issue in respect of TMOP by advocating more stability in the term designed to reflect firm storage capacity unit prices. Transco suggests that basing this parameter on TLNG auction outcomes achieves the principle objective of producing a TMOP set at an appropriate incentive level. Whilst other more sophisticated formulations equivalent to Storage Capacity unit rates might be derived, Transco considers that this Implementation of this Proposal in its present form would yield a straightforward transparent method for calculating TMOP.

Transco is of the view that in making decisions on both injection of Top-up gas and its subsequent disposal, the Top-up Manager should have the flexibility both to take into account the best information available and to take action on that basis. In terms of Winter Injection, the Top-up Manager has to make its decision by 13.00 D-1 and to base that decision solely on the basis of Network Code Entry Nominations. In many cases there will be other data such as operational flow notifications which may be more accurate estimates of close-of-day storage withdrawals.

In respect of disposal of Top-up gas, Transco believes that the present restrictions which only allow the Top-up Manager to reassess the potential for disposal at the end of each month do not serve any useful purpose. In fact a requirement of awaiting the end of month prevents the Top-up Manager from making efficient decisions. Transco believes that the Top-up Manager should be able to arrange disposal at whatever date it becomes clear that the Top-up stocks exceed the level required to maintain security of supply.

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

Adding additional flexibility in making decisions on injection and subsequent disposal of Top-up gas is consistent with economic and efficient operation by the licensee of its pipe-line system. Improving the consistency of TMOP is consistent with the provision of economic incentives for relevant suppliers to meet the gas security standards

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

Implementation would lead to greater within-day stability in Winter Injection nominations which might in turn have a beneficial effect on the stability of the within-day gas market. Ensuring that TMOP would be set at a consistent incentive level would ensure that its effects on OCM prices on high flow Days would be independent of whether Top-up gas was injected prior to the Winter Period or within the Winter Period..

b) development and capital cost and operating cost implications:

Transco has not identified any development or capital cost implications. By improving the flexibility of its injection and disposal it is expected that implementation would reduce the Top-up Manager's operating costs.

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:

Transco is making no proposal for recovery of any additional costs arising from the implementation of this Modification Proposal.

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

Transco is unaware of any such consequence.

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

By increasing the flexibility of Top-up injections and disposal, implementation of this Proposal might be expected to reduce Transco's level of contractual risk.

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

Transco is unaware of any such implications as its present systems have the flexibility to incorporate TMOP price changes resulting from implementation of this Modification Proposal.

7. The implications of implementing the Modification Proposal for Users

Transco believes that Users would be more consistently incentivised to make supply provision so benefiting security of supply. Users would also benefit from the risk of instability in the OCM that might exist where the Top-Up Manager is constrained on the information it can use in making Winter Injection nomination decisions.

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

Implementation would help ensure greater within-day consistency in Winter Injection nominations and this would assist the relevant Storage Operator in maintaining efficient operation of its plant.

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 is unaware of any such consequence.

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

Advantages

- More consistent incentives on Users in respect of maintaining security of supply.
- Greater stability in Winter Injection nominations with potential benefits for within-day gas market price stability.
- Greater potential for more economic disposal of surplus Top-up gas.

Disadvantages

- Transco is unaware of any disadvantages.

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

Transco now invites representations to this Proposal.

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

Transco is unaware of any such requirement.

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 is unaware of any such requirement.

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

Transco would recommend implementation immediately following direction.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends this Proposal be implemented.

17. Text

Section P

Amend paragraph 2.8.5(i) to read as follows:-

“(i) determine on each Day from November to April in any Storage Year.....for that Storage Year;”

Amend paragraph 3.4.1 to read as follows:-

“3.4.1 Subject to paragraphs 3.4.6 and 3.4.7, the Top-up Manager will, as soon as possible after 18.00 hours on the Preceding Day determine in respect of each Day.....”

Amend paragraph 5.3 to read as follows:-

“The Market Offer Price.....whichever is the lesser:-

$$\text{TMOP} = W + G + E + N \times (C/T)$$

where

W is the unit rate.....Gas Flow Day;

E is the average of the unit rate (in pence/kWh) of the System Entry Overrun Charge determined in accordance with Section B2.12.3 for the relevant Storage Connection Point for each Day in the period 1 November to 30 April in the previous Storage Year;

G is the Top-up WACOG;

N is 20;

C is:-

- (a) where the Top-up Manager has purchased Storage Capacity prior to the start of the Winter Period at that Storage Facility, the greater of:-
- (i) the average cost (in pence/kWh) of each unit of Storage Capacity which the Top-up Manager has purchased prior to the start of the Winter Period at that Storage Facility, multiplied by the total quantity of Storage Capacity held by the Top-up Manager at the date of the Top-up Market Offer in respect of the Storage Year for the facility;
 - (ii) the total cost (in pence) to the Top-up Manager at the date of the Top-up Market Offer for all Storage Capacity purchased by it in respect of the Storage Year for the facility;
- (b) where the Top-up Manager has not purchased Storage Capacity prior to the start of the Winter Period at that Storage Facility, the average cost (in pence/kWh) of each unit of Storage Capacity sold by Transco LNG Storage in aggregate in respect of the Transco LNG Storage Facilities prior to the start of the Winter Period, multiplied by the total quantity of Storage Capacity held by the Top-up Manager at the date of the Top-up Market Offer in respect of the Storage Year for the Storage Facility in question; and

T is the total quantity Storage Year for the facility.

For the purposes of the Storage Year.”

Amend paragraph 6.4.1 to read as follows:-

“6.4.1 Where following the acceptance of that price determined by reference to the formula in paragraph 5.3 (for which such purposes N shall be deemed to be one, and C shall be deemed to be the total cost (in pence) to the Top-up Manager at the date of the Top-up Market Offer for all Storage Capacity purchased by it in respect of the Storage Year for the facility) any such excess this paragraph 6.4.”

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Mike Calviou
Manager, Commercial Frameworks
NT & T

Date: