

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0659
"Winter Injection Cost Allocation Based on User Daily Imbalances"
Version 1.0

Date: 24/10/2003

Proposed Implementation Date: 01/12/2003

Urgency: Urgent

Justification

Under its Gas Transporter Licence, Transco is expected within its 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 1in 50 security criteria would be better achieved by the costs of Winter Injection being attributed to Users. Furthermore, a better cost attribution approach might be to apportion such costs to Users that demonstrate a lower level of supply security as illustrated through their daily imbalances.

By placing costs on Users that incur negative imbalances ("**shortfalls**") on Days where the total gas demand on the System exceeded a set threshold, 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.

Transco believes that there is a significant risk of cost generation this winter arising from Winter Injection requirements. Therefore, Transco believes it 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' negative daily imbalances on Days where the D-1 Demand Forecast exceeded a predetermined demand threshold ("**Top-up Relevant Days Threshold**").
- This Top-up Relevant Days Threshold would set to equal the 95% of maximum daily supply (ie beach gas plus Continental Interconnector import) identified within Transco's annual Top-up statement.
- The Counter-Injection Charge Rate would be set as the Net Counter-Injection Costs divided by the Recovery Quantity.

Transco believes that setting the Top-up Relevant Days Threshold to 95% of maximum daily supply would mitigate the risk to individual Users arising from the possibility of a very high Counter-Injection Charge Rate whilst at the same time providing a sufficiently strong incentive.

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

Proposer's Representative

John Bradley (Transco)

Proposer

Mike Calviou (Transco)

Signature

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