

98/06/10/04

**Modification Proposal 0233****Top-up - Change Value of N from 50 to 20****8th June 1998****Present Position**

Top-up gas is placed in storage by Transco to ensure security of supply where shippers in aggregate have not made sufficient provision for this. Top-up is bid into the flexibility mechanism at prices approximately fifty times cost. This is intended to create a commercial incentive to shippers to meet customer demand on peak days, the supply security standards (1-in-20 peak day and 1-in-50 severe winter) which are consistent with Transco's licence condition.

The Top-up manager at Transco estimates the top-up requirement by evaluating storage bookings and expected supply and demand although this can be recalculated in the light of better information. The top-up bid price is calculated according to a formula which takes into account the cost of the gas, the cost of storage, injection, space, deliverability and withdrawal costs.

**Proposal**

The top-up flexibility bid multiplier, N, was examined in February 1998 in the Ofgas consultation document, Review of top-up gas. We proposed that the number be altered from N = 50 to N = 20. This modification will facilitate this change. The current value gives top-up bids for the various storage facilities in the range of 42p/kwh at Rough to 129p/kWh at Dynevor Arms (although the effective range is 42p/kWh to 99.9999p/kWh because of constraints in the AT Link system). The current level of bid prices provides a cap on the mechanism and artificially high prices for top-up gas which distorts the bidding process. A value of 20 should still ensure that shippers can meet the supply security standards. The range of top-up bids will fall as a result of this proposal, resulting in a more effective use of top-up as a method of ensuring security of supply.

**Possible Impact on Customers**

There will be no direct impact. However, this should allow the flexibility mechanism to work more efficiently which will be of benefit to customers.

**Further Information**

Contact -	Richard Robinson at Transco	- 0121 623 2285
	Tahir Majid at Ofgas	- 0171 932 1669