

Draft Modification Report
Top-up Monitor Cost Recovery
Modification Reference Number 0583
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

It is proposed that where the Top-up Manager identifies a Winter Top-up Injection Requirement, due to the amount of gas-in-storage falling below the "monitor" level, it would notify this to all Users. Following such notification, if a User(s) were to make any subsequent Storage Withdrawal Nomination, the net costs of any counter storage injection made by the Top-up Manager in compliance with the Network Code and Safety Case would be recovered from those User(s). This notification would be withdrawn if the monitor level subsequently fell below the amount of gas-in-storage.

The costs expected to be incurred by the Top-up Manager and recovered from the User would be:

- Cost of gas purchased on the day for injection into the Storage Facility(ies) concerned;
- Costs of all services procured by the Top-up Manager in order to make the injection and to store the gas; and
- Any additional costs in withdrawing that gas from the Storage Facility(ies) under Network Code disposal arrangements.

It is suggested that all income, after allowing for financing costs, from the subsequent disposal of that gas would be offset against the costs summarised above.

2. Transco's Opinion

Transco's Safety Case, which includes Top-up as part of the safety regime, refers to provisions within both the Gas Supplier and the Gas Transporter Licence in respect of supply security:

- 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. The definition of supply security standards is contained within paragraph 4 of Standard Condition 32A in the Supplier Licence.
- 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.

At present the Network Code incentives operate as follows:

- Users with insufficient availability of beach gas, or gas-in-storage, would be expected to have energy imbalance deficits for that Gas Day;
- Such Users would only be able to address this deficit by on-the-day purchase of gas which would be likely to be set at a high price by the operation of within day markets, including the OCM;
- Within day market prices would in turn be influenced by accepted Top-up Market Offers which are set by a formula within the Network Code designed to result in a relatively high price for that gas;
- If Users with projected energy imbalance deficits declined to participate in within day markets on that Gas Day the resultant imbalance would be cashed-out at the SMP_{buy} price for that Gas Day, which would be at least as high as the Top-Up Market Offer price; and
- On the other hand, Users that have made sufficient provision of beach gas and gas-in-storage would not be expected to have energy imbalance deficits and would not be adversely affected by high SMP_{buy} prices.

Whilst these would appear to incentivise Users to maintain an energy balance, Users would also be expected to consider the likelihood of such a deficit occurring. Transco believes that as the likelihood would be associated with a very severe winter, which by its nature is infrequent, the present incentive structure is in need of strengthening.

The Modification Proposal seeks to strengthen the incentive on Users to maintain sufficient quantities of gas-in-storage. Implementation of the Modification Proposal would apply a charge to Users if their storage withdrawals, in the absence of a counter nomination by the Top-up Manager, would lead to a breach in monitor levels. Users would have a strengthened incentive to retain quantities of gas-in-store to balance any incentives they might have to withdraw that gas.

Transco believes that most storage withdrawals would not be affected by the implementation of the Modification Proposal and Users would have a clear indication beforehand of which withdrawals would be likely to incur the proposed charge.

Transco acknowledges that introducing an incentive on Users not to withdraw gas-in-storage might lead to those Users using demand-side flexibility, including interruption at power stations. However, a counter nomination by Transco would be expected to have the same effect as it would produce an energy imbalance on the System which would be addressed by accepting OCM offers. Those might include demand-side offers on behalf of power generators.

Transco therefore concludes that the effect of implementation of the Modification Proposal on the electricity regime would be neutral. However, respondents' views on any potential interactions with the electricity regime would be welcomed.

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

Implementation of this Modification Proposal would strengthen the economic incentives that deter Users from making withdrawals which, in the absence of a counter injection, could cause the amount of gas in-storage to fall below the monitor level. This would not affect the present situation in respect of User costs where gas is withdrawn from storage during severe weather or when the monitor level reduces (eg late winter).

This is consistent with the Gas Transporter providing reasonable economic incentives for relevant suppliers to secure that domestic supply security standards are satisfied.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco is not aware of any implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco is not aware of any development, capital cost or operating implications which would arise from implementation of this Proposal.

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:

Not applicable.

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

Transco is not aware of any consequences that this Proposal would have on price regulation.

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

Implementation of the Modification Proposal would transfer the cost arising from a storage counter injection, from Transco to the User whose actions gave rise to that injection. This would reduce the level of contractual risk to Transco.

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

Transco believes its existing computer systems and those of Users are sufficient to implement this Proposal. It is envisaged that an ad hoc invoicing system would be used in order to implement the revised charge structure.

7. The implications of implementing the Modification Proposal for Users

Users whose withdrawal nomination gave rise to counter nominations from the Top-up Manager would face charges that do not exist at present. However, Transco is of the opinion that current arrangements could be regarded as insufficiently reflecting the requirement of suppliers to meet domestic supply security standards.

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

Users might be expected to recover additional costs from any associated storage user that was not a Network Code Party. Storage Operators might be affected by any perceived loss of service value caused by the implementation of this Modification Proposal. However, in Transco's view, Users should not expect to use the full flexibility of a storage service if it caused gas-in-storage quantities to fall below the monitor level.

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 effect on the legislative and regulatory obligations and contractual relationships of Transco and each User and non-Network Code party.

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

Advantages:

- The net cost of any counter injections by the Top-up Manager would be focussed on the User whose withdrawal necessitated this action; and
- Would strengthen the economic incentives referred to in Condition 9 (Network Code) Section 1 (d) of Transco's GT Licence.

Disadvantages:

- Potential of increased costs to Users in default; and
- If the risk of incurring these charges is perceived to be high it may discourage use of Storage Services.

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 the Proposal.

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

Implementation is not required to enable compliance with safety or other legislation.

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 does not believe that this Modification Proposal is required in respect of any proposed change in the methodology established under Standard Condition 4(5) of the statement; furnished by Transco under Standard Condition 4(1) of the Licence.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco is not aware of any programme of works that would be required as a consequence of implementing the Proposal.

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

It is proposed that Transco would recover its costs as soon as possible. Transco is not aware of any systems changes that would be required as a result of this Modification Proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal is implemented as soon as possible.

17. Text

SECTION P: TOP-UP STORAGE

Add new paragraphs 3.4.7, 3.4.8, 3.4.9 and 3.4.10 to read as follows:

"3.4.7 Where the Top-up Manager determines there is a Winter Top-up Injection Requirement for a Storage Facility Type 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.

3.4.8 Where the Top-Up Manager has given notice under paragraph 3.4.7 in the event a User ("**relevant User**") withdraws gas from a relevant Storage Facility ("**relevant facility**") paragraph 3.4.9 shall apply.

3.4.9 Where this paragraph applies:

- (i) the costs ("**relevant costs**") incurred by the Top-up Manager in injecting gas (pursuant to paragraph 3.4.3) ("**relevant gas**") into the relevant facility by reason of the withdrawal of gas by the relevant User, which but for this paragraph 3.4.9 would be Top-up Costs, shall not be Top-up Costs for the purposes of paragraph 6;

- (ii) an amount equivalent to the relevant costs and relevant financing costs shall be

payable by the relevant User to the Top-up Manager;

- (iii) where relevant costs are incurred by the Top-up Manager by reason of two or more Users withdrawing gas on a Day, the relevant costs shall be payable by the relevant Users pro rata the aggregate amount of gas withdrawn by relevant Users;
- (iv) where paragraph (ii) applies, the gas injected by the Top-up Manager will be treated as relevant gas (for the purposes of paragraph (vi)) in respect of each relevant User, pro rata the aggregate amount of gas withdrawn by relevant Users;
- (v) any revenues received by the Top-up Manager in respect of a User's relevant gas shall not be Top-up Revenues for the purposes of paragraph 6; and
- (vi) an amount equal to any revenues received by the Top-up Manager in respect of a Top-up Storage Transfer of a User's relevant gas ("**relevant revenues**") shall be payable by Transco to the relevant User.

3.4.10 For the purposes of paragraph 3.4.9(ii), in relation to a User:

- (i) the "**relevant financing cost**" for a Day is the amount calculated as the Neutrality Interest Rate for the Day multiplied by the User's closing relevant cost balance for the Day;
- (ii) the "**closing relevant cost balance**" for a Day is the amount of the User's opening relevant cost balance, plus the amount (if any) of all relevant costs incurred by the Top-up Manager on that Day, less the amount (if any) of all relevant revenues received by the Top-up Manager on that Day;
- (iii) the "**opening relevant cost balance**" is:
 - (a) on the first day of the Storage Year, zero;
 - (b) for each subsequent Day, the amount of the closing relevant cost balance for the Preceding Day."

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:

Tim Davis
Head of Regulation NT&T

Date: