

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0529
"Treatment of Constrained Top-up Costs for Storage Year 2002/03. "
Version 3.0

Date: 30/01/2002

Proposed Implementation Date: 01/05/2002

Urgency: Non-Urgent

Justification

In May 2000, Modification Proposal 0391 was implemented which allowed the cost recovery of Constrained Top-up (but not National Top-up) for 2000 to 2001 to be recovered from Shippers through the Top-up Neutrality mechanism. Subsequently, Ofgem stated that "LNG is an alternative to transmission capacity" which supported Transco's view that costs incurred for this period should be recoverable. In May 2001, Modification Proposal 0451 was implemented to continue the cost recovery arrangements for a further year, 2001 to 2002. This proposal seeks a further extension.

Modification of the Network Code would not be necessary to allow LNG capacity to be sold in the same way as during the period 2000 to 2002, although Transco would require a special derogation to again deviate from the fixed LNG prices required by Special Condition 9D of its GT Licence.

The Network Code requires Transco LNG to issue its Annual Storage Invitation by 1st March 2002. Implementation of this Proposal is required by the time this invitation is issued so that shippers have all the relevant information to consider potential applications for LNG capacity.

Nature of Proposal

Transco proposes continuation of the Constrained Top-up cost recovery arrangements implemented through Modification Proposals 0391 and 0451 for one further year, commencing 1st May 2002.

Purpose of Proposal

Implementation of this Proposal would continue the 2000/01 and 2001/02 arrangements and would provide a reasonable period of time for further changes which may emanate from development of the exit capacity regime.

As stated in the reports for Modification Proposals 0391 and 0451, if cost recovery is not allowed. Transco would have a perverse incentive to invest in pipeline capacity rather than

utilise existing LNG assets. Such investment might conflict with the efficient and economic operation by the Licensee of its pipeline system.

Consequence of not making this change

If this Modification were not made, the arrangements set out in Ofgem's April 2000 decision document "Review of BG Transco's liquefied natural gas storage facilities" would not be able to continue in their entirety. Rejection of this Proposal would remove an incentive on Transco to auction LNG capacity (subject to derogation from the GT Licence).

Area of Network Code Concerned

Transition Document Part II, Section 8.12.1. (Section P: Top-up Storage)

Proposer's Representative

John J Bradley (Transco)

Proposer

Tim M Davis (Transco)

Signature

.....