

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0451
“Treatment of Constrained Top-up Costs for Storage Year 2001/02”
Version 2.0

Date: 15th January 2001

Proposed Implementation Date: 1 May 2001

Urgency: Not urgent

Justification

In March 2000 Transco raised modification proposal 0391. This proposed that the costs of Constrained Top-up (but not National Top-up) for 2000 to 2002 should be recovered from shippers through the Top-up Neutrality mechanism. Ofgem decided to approve this cost recovery for one year only; their rationale is explained in their April 2000 decision document on their "Review of BG Transco's liquefied natural gas storage facilities".

Ofgem has stated subsequently that "LNG is an alternative to transmission capacity" which supports Transco's view that costs incurred for this purpose should be recoverable.

When the LNG and Constrained Top-up arrangements for Storage Year 2000/01 were established, Ofgem said longer term LNG arrangements would be taken forward in parallel with their review of the exit regime and interruptibles, and it was envisaged that this process would lead to revised LNG arrangements for Storage Year 2001/02. However Ofgem's proposals document for the review of the exit regime, interruptibles and LNG has not yet been published, and there is now insufficient time to implement significantly changed LNG arrangements for 2001/02.

This proposal therefore seeks to continue the cost recovery arrangements established through Modification Proposal 0391 for a further year. No Network Code modifications are necessary to allow LNG capacity to be sold in the same way as in 2000/01, although Transco would require a further derogation to again deviate from the fixed LNG prices required by Special Condition 9D of its PGT Licence.

The Network Code requires Transco LNG to issue its Annual Storage Invitation by 1st March 2001. A decision 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 established through modification 391 for a further year commencing 1st May 2001.

Purpose of Proposal

Implementation of this proposal would perpetuate the 2000/01 arrangements which were implemented on the grounds that they furthered the relevant objectives, and would provide a reasonable period of time for further significant changes to be considered and, if thought fit, implemented.

As stated in the report for Modification Proposal 0391, if cost recovery is not allowed, Transco would have a perverse incentive to invest in pipeline capacity rather than to utilise existing LNG assets. Such investment might conflict with Condition 7(1)(a), the efficient and economic operation by the licensee of its pipeline system.

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Consequence of not making this change

If this modification is not made, the arrangements set out in Ofgem's April 2000 decision document will not be able to continue in their entirety. In its discussion of Modification Proposals 0356 and 0391, Ofgem linked Constrained Top-up cost recovery to the arrangements for selling capacity at Constrained LNG facilities. Rejection of the present proposal would remove an incentive on Transco to auction LNG capacity (subject to derogation from the PGT Licence).

Area of Network Code concerned

Transition Document Part II, Section P

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Proposer: Tim Davis

Signature:

Company: Transco