

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No 0356.

SHORT TITLE: Treatment of Constrained LNG Top-up Costs

DATE: 7th September 1999 **PROPOSED IMPLEMENTATION DATE:** ASAP

URGENCY: Non-urgent

JUSTIFICATION OF URGENT STATUS:

N/A.

NATURE OF PROPOSAL:

Constrained Liquefied Natural Gas (CLNG) facilities were constructed at some extremities of the System and close to large centres of demand, where this was considered more economical than building pipelines and compressors to provide the required amount of transmission capacity. Following introduction of the Network Code, Transco provides this transmission capacity by Constraining Users' gas in the CLNG facilities and paying them a discount on their entry charges at these facilities. Transco makes up any shortfall in Users' CLNG bookings by booking Constrained Top-up itself. The provision of transmission capacity by using CLNG facilities continues to be considered the most economic solution in the provision of the 1 in 20 capacity requirement in the circumstances outlined above.

It is not, however, appropriate that Transco should bear the cost of providing this service. Transco's allowed costs in its price control assumed that Transco would recover its costs for the provision of capacity by CLNG from shippers through Top-up neutrality. Following Modification 0297 'Top-up Cost Treatment', Transco is now paying directly for this capacity at no charge to Users.

The following points should be considered in conjunction with this modification:

Had Transco provided this capacity by investing in pipelines and compressors it would have been allowed a rate of return on its investment and an allowed Opex.

Transco has not avoided economic investment. This is demonstrated by the fact that CLNG requirements are broadly at the same level they were at the introduction of the Network Code.

CLNG allows Transco to be more flexible in connecting new loads in the areas supplied by CLNG facilities.

The investment signals to Transco are distorted as Transco receives no income for providing transmission support by CLNG.

This Network Code modification proposal, therefore, is to enable Transco to recover its costs for the provision of Constrained Top-up for 1999/2000, with the cost of this service recovered from all shippers across the System according to their UDQOs. The method of recovery for 'national' Top-up would remain unchanged.

It is intended that this would be an interim arrangement pending the outcome of the forthcoming LNG Review, RGTA and/or the next formula review. The cost of CLNG Top-up will be applied for the Storage Year 1999/2000.

PURPOSE OF PROPOSAL:

The purpose of the modification proposal is to ensure the appropriate allocation of CLNG Top-up costs and hence promote the efficient use of the System. It also helps to facilitate the achievement of PGT Licence Standard Condition 7 of the Relevant Objectives by ensuring the provision of reasonable economic incentives to shippers to insure that the domestic supply security standards are satisfied.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Transco will continue in the short term to subsidise Users and in the longer term will be incentivised to make additional, potentially inefficient, investment in the System.

AREA OF NETWORK CODE CONCERNED:

Section P: 6.4 Top-up recovery, P - 26.

Section S: annex 5-1 4 (f).

IDENTITY OF PROPOSER'S REPRESENTATIVE:

Chris Bradley (Transco)

PROPOSER (please print): Tim Davis

SIGNATURE:

POSITION: Manager Network Code Development

COMPANY: Transco

MODIFICATION PANEL SECRETARY'S USE ONLY

Reference Number: 0356

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