

TRANSCO WORKSTREAM REPORT

"Treatment of Constrained Top-up Costs for Storage Year 2002/03."
Version 1.0

1 Background to Modification Proposal

In May 2000, Modification Proposal 0391 was implemented which allowed the cost 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 2001-2002. This Modification 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. Direction for 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.

The Proposal was launched to the Panel via a postal vote route. The Panel unanimously referred the Proposal to the PSS Workstream and was subsequently discussed at its meeting held on 31 January 2002.

2 Description of Modification Proposal

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

3 Workstream Recommendation

Workstream discussion focussed on the new SO Incentives due to be implemented on 1 April 2002 and the effect, if any, these may have on transmission benefit arrangements. It was noted that it was unlikely that a full consensus on LNG/Demand Side Management would be reached by this date. Ofgem (in attendance) were requested to confirm whether the existing transmission capacity arrangements referred to in the Proposal would remain as present or change. Ofgem confirmed that nothing in the Final SO Proposals implied any change in Constrained LNG arrangements from the 1 April. The Final Proposals put forward transitional arrangements from 2002-2004 and proposed more general changes for interruption.

After discussion it was agreed that the Workstream should support progressing this Modification Proposal to consultation but, before close out for representations, the industry must be in possession of affirmation from Ofgem on the continuation of the existing transmission capacity arrangements. Transco were requested to explore the practicality of a further Modification Panel postal vote route.

7 February 2002 -Post Meeting Note: Ofgem has advised that the Proposal should proceed to consultation on the basis that the existing transmission capacity arrangements remain in place from 1 April 2002.