

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0472
"Restoration of Funding for National Top-up"
Version 4.0

Date: 13/06/2001

Proposed Implementation Date: 01/12/2001

Urgency: Non-Urgent

Justification

When the Network Code was first developed, it was generally agreed that it was desirable for gas to be available in storage in order to help provide security of supply. Where bookings were not adequate to deliver this, additional bookings should be made (top-up). The outcome incorporated in Section P of the Network Code involved Transco acting as Top-up Manager. Arrangements were also included such that any net costs would be passed through to Users in accordance with a Top-up neutrality mechanism.

Transco's Safety Case includes Top-up as part of the safety regime, and refers to Standard Condition 31(9) of the Gas Supplier Licence. That condition requires a Supplier to either meet domestic supply security standards in relation to their domestic customers, or secure that gas conveyed by public gas transporters for supply to domestic customers is conveyed in conformity with those transporters' network codes. Standard Condition 31(10) of the Supplier Licence defines domestic supply security standards i.e. supplies must be sufficient to meet 1-in-20 peak day and 1-in-50 severe year demands. Standard Condition 7 (1) (d) of the Public Gas Transporter Licence 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 (within the meaning of condition 31(10) of the Standard Conditions of Gas Supplier Licences) are satisfied as respects the availability of gas to their domestic customers", and Top-up is part of the arrangements through which Transco meets this condition.

The Network Code obliges Transco as Top-up Manager to book and fill available storage on a national basis, as necessary to meet the 1-in-20 peak day and 1-in-50 severe year security of supply criteria. Ofgem has previously argued that Top-up is not necessary, and Transco should be pro-active in seeking to remove its Top-up related obligations. Consistent with this view, Transco was directed to implement Modification Proposal 0297, which removed the Top-up cost recovery mechanism from the Network Code.

In light of Ofgem's position, Transco has sought to remove or reduce the Top-up obligations in the Network Code and its Safety Case. However, the HSE has made it clear that it will not accept any amendment to the Safety Case which involves such a reduction, as this could reduce system security levels.

Given the continuing existence of the Safety Case reference and the Network Code obligation to book and fill storage, assuming Users have not done so to the level expected to be sufficient to maintain supplies on a 1-in-20 peak day or in a 1-in-50 severe year, Transco believes it is appropriate that the funding arrangements should be reinstated. This Modification therefore proposes reinstatement of the previous Top-up neutrality mechanism that was originally included in Section P of the Network Code.

While Transco proposes returning to the previous mechanism for allocating any Top-up costs between Users, it recognises that some concerns have been raised in the past about the continuing appropriateness of this method of cost recovery. Transco would welcome alternative proposals for how these costs should be shared between Users.

Nature of Proposal

Network Code provisions require Transco, as Top-up Manager, to book and fill storage capacity in order to meet the 1-in-20 peak day and 1-in-50 severe year security criteria for national supply / demand. Transco proposes that the net costs of this should be recovered from Users through the Top-up neutrality mechanism.

Part of the national requirement may already have been provided through Constrained Top-up. The present proposal only applies to the costs of the remaining national Top-up requirement.

Purpose of Proposal

This proposal is required to facilitate the funding of an obligation which the HSE has made clear it believes should continue, and was not allowed for when the present price control was set. Implementation would also help to ensure consistency with Special Condition 9(c) of Transco's Public Gas Transporter Licence which says that Transco should bear no financial loss or benefit on account of acting as Top-up Manager.

Consequence of not making this change

Transco will be unable to recover the costs of meeting obligations in its Safety Case.

Area of Network Code Concerned

Section P

Proposer's Representative

Ian Hopkins (Transco)

Proposer

Tim M Davis (Transco)

Signature

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