

Draft Modification Report
Payment Mechanism for Closing Top-up Adjustment Amount
Modification Reference Number 0424

Version 2.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Network Code contains provisions to identify Top-up costs which are payable by the Top-up Manager in respect of a Storage Year. Included in these provisions is a requirement that the Top-up Manager will pay to Users the amount (if any) identified as the Closing Top-up Adjustment Amount (CTAA). The CTAA is payable by Transco to Users where the revenues received by the Top-up Manager following a disposal of Top-up gas at the end of a Storage Year exceed the Weighted Average Cost of that Gas (WACOG).

On 1 December 1998 Modification Proposal 0297 'Top-up Cost Treatment' was implemented. Modification Proposal 0297 placed the funding obligations for Top-up with Transco and at the same time it modified the Top-up recovery mechanism whereby the new mechanism only enables Transco to pay surplus revenues to Users on Days when a Top-up Market Offer is accepted. A direct consequence of this is there is no defined mechanism in the Network Code by which Transco can pay CTAA to Users.

This Modification Proposal aims to re-instate the mechanism by which the Top-up Manager may pay CTAA to Users. The proposed mechanism is to divide CTAA by all relevant User's UDQOs for the Top-up Recovery Period (December to March inclusive for the relevant Storage Year) to derive each User's credit. The unit refund rate would be multiplied by each relevant User's UDQOs in that same period, as was the case prior to implementation of Modification Proposal 0297.

If this Modification Proposal is implemented there would be an interaction with Modification Proposal 0391 'Treatment of Constrained Top-up Costs for 2000 to 2002'.

Modification Proposal 0391 introduced transitional provisions by which Transco may recover from Users the costs associated with Constrained Top-up for the Storage Year 2000/01. Via the same provisions Transco is required to pay to Users the revenues realised from the disposal of Constrained Top-up gas where these revenues exceed costs. This 'Constrained Top-up Annual Adjustment Amount' is defined in Transition Document paragraph II 8.12.

It is necessary that the legal text for the payment of CTAA distinguishes between Constrained Top-up costs and revenues and 'National' Top-up costs and revenues in a Storage Year when the funding provisions for Constrained Top-up and 'National' Top-up are not the same.

This can be achieved by excluding Constrained Top-up Costs from the determination of the Provisional Closing Top-up Adjustment Amount (the weighted average cost of Top-up gas

as at 30 November in the relevant Storage Year) and by excluding Constrained Top-up Revenues from the determination of the Out-turn Closing Top-up Amount (the revenues received by the Top-up Manager following disposal of the Top-up gas).

2. Transco's Opinion

The Network Code contains provisions requiring the Top-up Manager to pay to Users at the end of a Storage Year the amount (if any) defined as the Closing Top-up Adjustment Amount (CTAA).

It is Transco's opinion that in the interests of certainty and consistency it is necessary to define the mechanism by which CTAA would be paid to Users. The chosen mechanism would directly affect the amount paid to each User following the determination of a CTAA and Transco considers it appropriate that the mechanism is approved by the community and included in the Network Code. Transco is of the opinion that if this Modification Proposal is implemented CTAA would be distributed to Users via a process which the community has agreed is not unduly discriminatory and it would better facilitate both existing Network Code provisions and the relevant objectives.

3. Extent to which the proposed modification would better facilitate the relevant objectives

This Modification Proposal would facilitate Transco's compliance with existing Network Code provisions.

Transco's PGT Licence Special Condition 9C states that Transco is intended neither to suffer any financial detriment nor to acquire any financial benefit in relation to its functions as Top-up Manager. This Modification is consistent with that licence requirement. If implemented, this Modification Proposal would therefore facilitate Standard Condition 7 (1)(b) of Transco's Licence which provides that Transco shall ensure the efficient discharge of its licence obligations.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

There would be no implications for the operation of the System which would arise from this Modification Proposal.

b) development and capital cost and operating cost implications:

There would be no development, capital or operating costs which would arise as a result of this Modification Proposal.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

There would be no costs arising from this Modification Proposal which Transco would seek to recover.

d) analysis of the consequences (if any) this proposal would have on price regulation:

There would be no consequences arising with regard to price regulation as a result this Modification Proposal.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

This Modification Proposal seeks merely to insert a defined mechanism into the Network Code by which Transco would pay CTAA to Users. The contractual provisions which determine when CTAA is payable by Transco to Users would remain unchanged. There would be no affect on the level of contractual risk to Transco under the Network Code as a result of this Modification Proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

There would be no development implications for the computer systems of Transco or the related computer systems of Users.

7. The implications of implementing the Modification Proposal for Users

If this Modification Proposal is implemented Top-up costs and revenues would remain as defined by existing Network Code provisions. The Modification Proposal would define the mechanism by which Transco would pay CTAA to Users in the manner originally provided for by the Network Code. If this Modification Proposal is implemented it would better facilitate existing Network Code provisions.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

There would be no implications which would arise from the implementation of this Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators, suppliers, producers or any Non-Network Code Party.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

If this Modification Proposal is implemented no consequences would arise with respect to the legislative and regulatory obligations or contractual relationships of Transco and each User and Non-Network Code Party.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

If implemented an advantage would be that this Modification Proposal would provide clarity with respect to the mechanism that would be applied to the payment of CTAA by Transco to Users.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Not applicable.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

This Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Not applicable.

14. Programme of works required as a consequence of implementing the Modification Proposal

Following a Storage Year in which a CTAA has been identified, Transco would be required to pay to Users the CTAA. Transco would calculate the amounts payable to each relevant User on the basis set out in this Modification Proposal. CTAA would be invoiced and payable under Section S.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

It proposed that this Modification Proposal be implemented on 1 November 2000.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Modification Proposal.

17. Text

MODIFICATION 0424

CLOSING TOP-UP ADJUSTMENT AMOUNT

Draft proposed legal text

SECTION P: TOP-UP STORAGE

Renumber existing paragraphs 6.6.1 and 6.6.2 as paragraphs 6.6.2 and 6.6.3 and add text at paragraph 6.6.1 to read as follows:

"In respect of each Storage Year the Top-up Manager will as soon as reasonably practicable in the following Storage Year determine the Closing Top-up Adjustment Amount and where such amount is negative the Top-up Manager shall pay to each relevant User an amount calculated in accordance with paragraph 6.6.3."

Delete text at renumbered paragraph 6.6.3 and insert text to read as follows:

"Where an amount is payable by the Top-up Manager in accordance with paragraph 6.6.1, the Top-up Manager shall pay each relevant User an amount calculated as the Closing Top-up Adjustment Amount divided by the sum of all relevant UDQOs for each Day in the Top-up Recovery Period multiplied by the sum of the relevant User's UDQOs for each Day in the Top-up Recovery Period."

Add new paragraph 6.6.4 to read as follows:

"For the purposes of paragraph 6.6.3 'relevant User' and 'relevant UDQOs' have the meanings given in paragraph 6.4.2."

TRANSITION DOCUMENT, PART II

Amend paragraph 8.12(6) to read as follows:

"For the purposes of Section P6:

(a) Top-up Costs shall not include Constrained Top-up Costs and Top-up Revenues shall not include Constrained Top-up Revenues; and

(b) the Out-turn Closing Top-up Amount shall not include Constrained Top-up Revenues and the Provisional Closing Top-up Amount shall not include Constrained Top-up Costs."

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis

Manager, Network Code

Date: