

URGENT MODIFICATION PROPOSAL

SHORT TITLE: Top-up Cost Treatment

DATE: 19 June 1998

PROPOSED IMPLEMENTATION DATE: 1 July 1998

URGENCY: Urgent

JUSTIFICATION:

Summary

Various changes to the existing Top-Up regime and rules are now both appropriate and necessary, in the light of -

- the abolition of the V-factor
- this year's changes to the Rough storage regime
- issues raised in Ofgas' recent consultation paper on Top-Up
- experiences in 1997/8

Transco are developing a Modification to address necessary changes to the existing rules on calculating Top-Up, to ensure these reflect the new storage regime.

This modification therefore addresses the issue of how Top-Up is funded.

Ofgas' recent paper (April 1998) presenting their conclusions from their Review of Top-Up issues says -

".....we believe that there would be merit in examining whether all the costs of Top-Up should continue to be borne by shippers. Should the cost recovery of Top-Up be moved from the shippers to Transco, this would incentivise Transco to take steps to ensure that the amounts of Top-Up bookings were kept to a minimum.....it is our initial view that these costs should not continue to be borne by shippers." [page13]

That paper also refers to -

".....The current anomaly that shippers pay for locational Top-Up rather than Transco" [page 10]

and says -

"A likely conclusion of our energy balancing review is that Transco should bear the costs associated in their entirety with transportation constraints..... to the extent that Transco has to book storage in particular locations, Ofgas is firmly of the view that Transco should bear the costs of such bookings." [page 14]

The Network Code provides the rules by which Transco recover from shippers the costs of Top-Up: in essence this Modification proposes the deletion of this process.

Charging options

We propose that Transco bear all the Top-Up costs, both as a matter of principle as being an appropriate change and also as being a relatively simple change to implement.

Specific Changes

BGT believes that the proposed change can best be achieved by the deletion of the rules in Sections P6.4 and P6.6 of the Code which relate to recovery of net Top-Up costs from Users (and to distribution of net revenue to Users) and settlement of the Out-turn Closing Top-Up Amount (which can be a surplus or a deficit).

This would have the effect of leaving Transco with any residual income as well as residual costs.

BGT recommends that the rules relating to the calculation and publication of Top-Up costs should be retained, because (in BGT's view at least) Top-Up has to be assumed an integral part of the Network Code until a revised Transco Safety Case covering a regime without Top-Up has been prepared and adopted. Hence it is important to retain the rules relating to the determination of Top-Up, and discussion on the future of Top-Up would be aided if existing rules relating to publication are retained.

Associated Issues

Further issues were raised in the Planning & Security Workstream discussion, namely the ownership of the 228.8 GWh of gas in Avonmouth needed for 1998/9 Top-Up, the limitations (if any) on Transco disposing during a winter of gas which became surplus to requirements for the remainder of the winter, and treatment of the ensuing revenue.

The Avonmouth gas is effectively "owned" by shippers. The options include -

- the gas could continue to belong to shippers, with Transco managing the volume and shippers bearing gas-related costs and receiving gas-related income, but with Transco bearing non-gas-related (ie. storage) costs

- the gas could be sold, with shippers receiving the proceeds, leaving Transco to secure gas for Top-Up purposes as it chooses

- the gas could be transferred to Transco, at an appropriate cost, for them to own and use subject to limitations on use, disposal and future purchases consistent with existing rules and practice relating to Top-Up gas.

The first of these is complex and implies continuing intrusion and involvement by shippers in Top-Up management and ongoing activity, which is at least inconsistent with the view that Transco should be accountable for Top-Up and its costs. This option is not recommended.

The difficulty with the second option is that if 228.8 GWh (7.8 mill thms) of gas in Avonmouth were offered for sale there will be little demand from the shipping community and the principal prospective purchaser will be Transco. So if an auction were held offering the gas in store or at the NBP the likely outcome would be bids from shippers at "spot less the Avonmouth withdrawal charge" (ie spot minus 0.6 p/thm, say about 8.3 p/thm), and Transco could expect to capture the gas at about 9 p/thm, giving compared with WACoG a net loss of 6-7 p/thm to be absorbed by shippers.

Hence it is recommended that 228.6 GWh of Top-Up gas in Avonmouth be transferred to Transco at a defined price, and that Transco then be free to use and dispose of this gas subject to consistency with existing rules and practice relating to Top-Up gas (eg. disposals/purchases will be by price tender, with options of transfer either at the NBP or in store)

BGT further recommends that the transfer price be based on the lower of:

- the WACoG of Top-Up gas as at 1 June 1998
- the lowest IPE monthly settlement price at 30 June 1998 for the months of July, August or September 1998 (likely to be a little below about 9 p/thm) plus the price of injection into Avonmouth (5.6 p/thm),

- and less a discount of 5%.

The loss on the transfer should be borne by shippers as a "closing margins smear".

Timing

Transco have questioned whether it would be appropriate to make changes in respect of 1998/9 Top-Up costs "retrospectively", as the Storage and Top-Up year has already begun.

Shippers have argued that the issue of retrospectivity is spurious in this case, since the main reason that the community has not hitherto received a Modification relating to Top-Up and its cost treatment is that Transco failed to fulfil an action relating to preparing a Modification which was agreed at the workstream on 23 April, ie. before the present Top-Up year started.

Also Ofgas have noted that the issue had been alive in the community since the Ofgas Consultation paper in February and it had been clear then that Ofgas were looking to address Top-Up charging issues for 1998/9 (subject to the emergence of an appropriate Modification).

Hence it is concluded and recommended that any initial changes agreed should be enacted in respect of 1998/9 Top-Up charges.

Other issues

Agreement that Transco will bear the costs of Top-Up will naturally give them an incentive to accelerate work on the possible abolition of Top-Up, and in particular on the preparation and publication of a revised Safety Case such as would need to be presented and accepted if Top-Up is to be removed.

To speed up the Modification, British Gas Trading are happy to work with Transco (with the support of the Planning & Security Workstream) to develop any draft Workgroup reports needed.

CONSEQUENCE OF NOT MAKING THIS CHANGE: In the 1998/9 Storage Year Shippers will incur additional costs that are inconsistent with the spirit of recent Code changes and unnecessary.

AREA OF NETWORK CODE CONCERNED: Section P

NATURE OF PROPOSAL:

Transco should bear all net residual Top-Up costs and retain any residual revenues with effect from the 1998/9 Top-Up year: to this end Sections P6.4 and P6.6 of the code should be deleted.

PURPOSE OF PROPOSAL: To protect Shippers from inappropriate charges.

PROPOSED TEXT: to follow

PROPOSER: Simon Goldring

SIGNATURE:

POSITION: Gas Transportation Manager

COMPANY: British Gas Trading

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