

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0424
"Payment Mechanism for Closing Top-up Adjustment Amount"
Version 2.0

Date: 05/09/2000

Proposed Implementation Date: 01/10/2000

Urgency: Non-Urgent

Justification

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).

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.

In the interest of certainty and consistency it is necessary to define the mechanism by which CTAA would be paid to 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.

Nature of 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).

This Modification Proposal aims to re-instate the mechanism by which the Top-up Manager may pay the 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) then multiply by each relevant User's UDQOs in that same period, as was the case prior to 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 recognises the distinction 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.

Specifically for the purposes of the Storage Year 2000/01 it will be necessary that the legal text for this Modification Proposal excludes 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 excludes 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).

Purpose of Proposal

It is the purpose of this Modification Proposal to revert to the original mechanism by which Transco would pay CTAA to Users thereby facilitating Transco's compliance with existing Network Code provisions. This Modification therefore facilitates the efficient and economic operation by Transco of the pipe-line System.

Consequence of not making this change

The Top-up Manager would remain contractually obliged to pay CTAA to Users for Storage Years where the disposal of Top-up gas yielded revenues in excess of WACOG without a defined mechanism being in place to allow the Top-up Manager to achieve this.

Area of Network Code Concerned

Section P 'Top-up Storage'

Transition Document Part II paragraph 8.12

Proposer's Representative

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Proposer

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Signature

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