

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0540**  
"Delay of Licence and Effects on Capacity Incentives"  
Version 1.0

**Date:** 05/03/2002

**Proposed Implementation Date:** 01/04/2002

**Urgency:** Urgent

### **Justification**

Transco anticipates that revised System Operator Incentives will be implemented with effect from 1 April 2002. The implementation of these incentives is anticipated to be via Gas Transporter (GT) Licence amendments. However, these Licence amendments will not be in place before 1 April. Transco, therefore, seeks Urgent status for this Network Code Modification Proposal to ensure that these revised arrangements can be put into effect on a transitional basis by the due date, but via the Network Code rather than Transco's GT Licence.

This proposal is designed to implement the anticipated capacity buy back incentive with effect from 1 April 2002. If approved this Proposal will provide clarity as to the incentive that will apply and will ensure that the incentives are active from 1 April 2002. This approach would also ensure that no reconciliation process would be necessary if the current incentive arrangements were allowed to continue but which were then superseded by amendments introduced retrospectively following revisions to the Licence.

### **Nature of Proposal**

The proposal is to include in the Network Code a capacity buy back incentive arrangement that is consistent with that proposed by Ofgem in its Final Proposals for NTS SO Incentive Schemes. The proposal is an interim measure, which should take effect on 1 April and be applied until the new GT Licence arrangements are implemented and is only in respect of the parameters that relate to the annual buy back incentive scheme.

### **Purpose of Proposal**

It will be necessary to amend the Network Code so that the structure and parameters of the buy back incentive are consistent with Ofgem's Final Proposals for SO Incentive Schemes, which are expected to be reflected in Transco's GT Licence in due course. Not making a change would result in Transco being unable to receive revenues or face costs in accordance with Ofgem's proposed incentive schemes. It would also create uncertainty in so far as the current Code terms would prevail and these would provide different incentives to the intent of the SO Incentive Scheme final proposals. If SO Incentive Scheme proposals were then implemented through Licence amendments that are retrospective in nature, complex reconciliation arrangements may be necessary.

It is proposed that the Network Code is modified such that capacity management costs and any incremental sales revenue will be redistributed via capacity neutrality arrangements, as introduced in Modification Proposal 0488. An incentive will be introduced under which Transco's Capacity Incentive Performance Measure (CIPM) is the magnitude of the net cost, or revenue, of actual costs of capacity management and incremental sales revenue for a formula year compared to a value equivalent to that proposed by Ofgem in its final proposals. Where CIPM is equal to zero (i.e. actual net costs are equal to forecast and performance is neither superior or inferior) Transco will face no reward or penalty. Superior performance occurs when actual costs are lower than the forecast and inferior performance occurs when actual costs exceed those forecast.

The incentive parameters for the year April 2002 to March 2003 which it is proposed to incorporate within the Network Code are:

- a. Target - £35 million cost
- b. Cap - £30 million revenue to Transco
- c. Collar - £12.5 million cost to Transco
- d. Upside sharing factor - 50%
- e. Downside sharing factor - 35%

The incentive costs or revenues will be reflected in an SO Commodity Charge and, therefore, existing Billing arrangements associated with the payment or receipt of incentive revenues to or from Transco will cease.

### **Consequence of not making this change**

In the event of a delayed implementation of the GT Licence amendments, Transco and Users could be exposed to an incentive arrangement that is not in line with Ofgem's final proposals for SO incentives.

### **Area of Network Code Concerned**

Transition Document

### **Proposer's Representative**

Russell D Cooper (Transco)

### **Proposer**

Tim M Davis (Transco)

### **Signature**

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