

28/03/2002

Dear Colleague,

**NOTICE OF IMPLEMENTATION
MODIFICATION PROPOSAL No: 0540**

"Delay of Licence and Effects on Capacity Incentives"

Please note that Modification Proposal No 0540 was implemented with effect from 06:00 hours on 01/04/2002. The Final Modification Report, Version 1.0, was signed by Ofgem on 28/03/2002.

The new Network Code text resulting from this Modification follows.

Modified Text:

TRANSITION DOCUMENT, PART II

Add new paragraph 8.1.13 to read as follows:

"B2.13 With effect from 1st April 2002 and without prejudice to the continued application of paragraph 8.1.11 of this Part II in respect of preceding calendar months and the application of paragraph 8.1.12, Section B2.13 shall continue not to apply and the arrangements set out in paragraphs (1) to (8) (inclusive) shall apply pursuant to which Transco will pay or be paid certain amounts to or by relevant Users in respect of each Formula Year by reference to the amount by which the Actual Annual Capacity Amount differs from the Forecast Annual Capacity Amount (the "**Annual Capacity Incentive Arrangement**"):

- (1) for the purposes of the Annual Capacity Incentive Arrangement for each Formula Year:
 - (a) the "**Capacity Incentive Annual Performance Amount**" is the Actual Annual Capacity Amount less the Forecast Annual Capacity Amount;
 - (b) the "**Actual Annual Capacity Amount**" is Relevant Annual Capacity Costs less Relevant Annual Capacity Revenues;
 - (c) the "**Forecast Annual Capacity Amount**" is £35,000,000 of Relevant Annual Capacity Costs in excess of Relevant Capacity Revenues;
- (2) in relation to the Annual Capacity Incentive Arrangement, for any Formula Year, Transco's performance:
 - (a) is 'superior' where the Actual Annual Capacity Amount is less than the Forecast Annual Capacity Amount; and

- (b) is 'inferior' where the Actual Annual Capacity Amount is greater than the Forecast Annual Capacity Amount;
- (3) for each Formula Year the "**Relevant Annual Capacity Incentive Amount**" is:
 - (a) where Transco's performance was superior, the amount determined as the lesser of:
 - (i) £30,000,000; and
 - (ii) $CIAPA * 0.5$;
 - (b) where Transco's performance was inferior, the amount determined as the lesser of:
 - (i) £12,500,000; and
 - (ii) $CIAPA * 0.35$; and
 - (c) where the Capacity Incentive Annual Performance Amount is zero, zero,
where CIAPA is the Capacity Incentive Annual Performance Amount;
- (4) for the purposes of calculating the Actual Annual Capacity Amount no account shall be taken of Relevant Capacity Costs incurred by Transco in the circumstances referred to in Section B2.13.4;
- (5) Having derived the Relevant Annual Capacity Incentive Amount pursuant to (3) above that sum, which may be a negative or positive number, shall be added to other revenues that Transco is entitled to recover in calculating the NTS Commodity Charge in accordance with the Transportation Statement
- (6) a "**Formula Year**" means the period from 1 April in any year to 31 March in the following year;
- (7) "**Relevant Annual Capacity Revenues**" means in respect of a Formula Year the sum of Relevant Capacity Revenues for each calendar month in such year; and
- (8) "**Relevant Annual Capacity Costs**" means in respect of a Formula Year the sum of Relevant Capacity Costs for each calendar month in such year."

Yours sincerely,

Julian Majdanski
Modification Panel Secretary