

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0520

"Removal of Entry Capacity Incentives from the Network Code"

Version 1.0

Date: 17/12/2001

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Ofgem has proposed a revised structure for Transco's NTS SO incentives whereby the definition of Transco's incentives, incentive parameters and provisions for the calculation of incentive amounts would be contained within Transco's Gas Transporters (GT) Licence.

This Modification Proposal is required to facilitate the implementation of Ofgem's proposals in respect of Transco's NTS System Operator incentive scheme by facilitating the migration of Transco's Entry Capacity Incentive scheme from the Network Code into Transco's GT Licence. This migration would result in the distribution of NTS SO Entry Capacity incentive amounts being managed through Transco's GT Licence as part of the calculation of Transco's NTS SO allowed revenue. Accordingly, the Network Code would need to be amended to enable the payment of Entry Capacity incentive amounts to be managed via the proposed NTS SO Commodity Charge.

To achieve the above, it would be necessary to separate the Entry Capacity neutrality process from Transco's Entry Capacity incentive scheme and subsequently remove the Entry Capacity incentive scheme provisions from the Network Code. It is envisaged that from 1 April 2002 Transco's Entry Capacity incentive scheme would be defined in Transco's Gas Transporters (GT) Licence.

In the event that Transco's GT Licence is amended to incorporate Transco's Entry Capacity incentive, this Modification Proposal would be required to prevent any conflict arising between the provisions of the Network Code and Transco's GT Licence. Therefore, Transco believes that this Modification Proposal would facilitate adherence to Standard Condition 7(1)(b), i.e. the efficient discharge of Transco's obligations under its GT Licence.

Nature of Proposal

Following the implementation of Modification Proposal 0488 'Redesign of Capacity Incentive Regime' Entry Capacity costs are handled via a neutrality process that operates independently of Transco's Entry Capacity incentive scheme. The Network Code provisions that give effect to the current Entry Capacity neutrality process and incentive scheme are transitional arrangements only. These transitional arrangements will expire on 30 March 2002.

The nature of this Modification Proposal is to migrate the existing transitional Entry Capacity neutrality provisions into the substantive body of the Network Code and to remove the Entry Capacity incentive scheme provisions from the Network Code. The Entry Capacity incentive scheme would instead be defined within Transco's GT Licence.

The purpose of this Modification Proposal is to decouple the calculation and management of Entry Capacity incentive amounts from the Entry Capacity neutrality process. The Network Code provisions which relate to and underpin the neutrality process through which Entry Capacity costs are managed would be unaffected by this Modification Proposal.

It would be necessary to coordinate the implementation of this Modification Proposal with any relevant amendments to Transco's GT Licence to help to ensure that no conflict arises between the provisions of the Network Code and Transco's GT Licence.

If this Modification Proposal and the relevant amendments to Transco's GT Licence are implemented on 1 April 2002 the transitional Entry Capacity incentive arrangements should be allowed to automatically expire on 31 March 2002. However, if this Modification Proposal and the relevant amendments to Transco's GT Licence are implemented prior to 1 April 2002, it will be necessary to delete the relevant transitional arrangements.

Purpose of Proposal

The purpose of this Modification Proposal is to facilitate implementation of the proposed NTS SO incentive schemes and to achieve this in a manner that is consistent with the 'relevant objectives' as defined by Transco's GT Licence. It is also the purpose of this Modification Proposal to enable Transco to manage NTS SO Entry Capacity incentive amounts via the proposed NTS SO Commodity charge.

Consequence of not making this change

Failure to implement this Modification Proposal could lead to inconsistency, duplication and conflict between the provisions of the Network Code and Transco's GT Licence.

Area of Network Code Concerned

Section B: System Use and Capacity
Transitional Document Part II paragraph 8.1.11

Proposer's Representative

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Proposer

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Signature

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