

Direct Dial: 0207-901-7327

19 September 2001

Transco, Shippers and Other Interested Parties

Dear Colleague,

Modification Proposal 0494: Amendment to the Capacity Neutrality Arrangements

Ofgem has considered the request from Powergen Energy Trading for modification proposal 0494, '*Amendment to the Capacity Neutrality Arrangements*' to follow urgent procedures. We agree that this modification merits urgent status.

This modification proposes an adjustment to the mechanism by which auction over recoveries (auction revenue in excess of target revenue), from the sale of MSEC (monthly system entry capacity), are used to fund capacity buy-back costs¹. Under the current arrangements, to be introduced from 1 October 2001, the auction over recovery is broken down into six equal monthly amounts, with buy-back costs in excess of this monthly amount smeared across MSEC holders. Powergen proposes to provide a mechanism within the Network Code to allow buy-back costs in excess of the monthly amounts to be rolled forward cumulatively to reduce the cash flow exposures for holders of MSEC.

Ofgem considers that this modification proposal merits urgent status as the buy-back arrangements, implemented through Ofgem's acceptance of PC 65 and Modification Proposal 0488, are due to commence on 1 October 2001.

Issued to Ofgem for decision on urgency	18 September 2001
Proposal agreed as urgent	19 September 2001
Proposal issued for consultation	20 September 2001
Close out for representations	24 September 2001
Final report to Ofgem	26 September 2001
Ofgem decision expected	27 September 2001

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

¹ This regime is to be introduced from 1 October 2001, following Ofgem's acceptance of Pricing Consultation 65, '*Alternative Method of Funding Entry Capacity Constraint Management*' and Modification Proposal 0488, '*Redesign of Capacity Incentive Regime*'.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping, stylized loops and horizontal strokes.

Steve Smith
Director, Trading Arrangements