

Direct Dial: 0207-901-7437

17 August 2001

Transco, Shippers and Other Interested Parties

Dear Colleague,

Modification Proposal 0488: Redesign of Capacity Incentive Regime

Ofgem has considered the request from Transco for modification proposal 0488, '*Redesign of Capacity Incentive Regime*' to follow urgent procedures. We agree that this modification merits urgent status.

This modification proposal provides for the current capacity incentive to be disabled, with 100% of the capacity buy-back costs and 100% of the incremental sales revenue accruing to shippers via the current capacity neutrality arrangements.

The modification further proposes the introduction of a new incentive under which Transco's Capacity Incentive Performance Measure (CIPM) would be the magnitude of the net cost (revenue) of actual costs of capacity buy-backs and incremental sales revenue for a month compared to an ex-ante forecast of the same. Where CIPM is equal to zero (i.e. actual costs are equal to forecast) Transco will face no reward or penalty. Under the incentive Transco obtains rewards (penalties) when actual costs are lower (higher) than the forecast. Transco has also proposed revised monthly caps and collars under the new incentive scheme.

Ofgem considers that this modification proposal merits urgent status as any major changes to the structure of Transco's capacity incentive and the nature of any shipper smear back of buy-back costs may alter shippers' perceptions of the value of capacity released in the monthly auctions. Any changes to the incentive parameters resulting from the proposal will therefore need to be made prior to the scheduled commencement of the auctions. The auctions for the period 1 October 2001 to 31 March 2002 are scheduled to commence on 29 August 2001.

Issued to Ofgem for decision on urgency	16 August 2001
Proposal agreed as urgent	17 August 2001
Proposal issued for consultation	17 August 2001
Close out for representations	22 August 2001
Final report to Ofgem	23 August 2001
Ofgem decision expected	24 August 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.

Yours sincerely,

Mark Feather
Head of RGTA