NETWORK CODE MODIFICATION PROPOSAL No: 0494

SHORT TITLE: Amendment to the Capacity Neutrality Arrangements.

DATE: 17/09/01
PROPOSED IMPLEMENTATION DATE: 01/10/2001

URGENCY: Urgent

JUSTIFICATION:

Under the current arrangements created through Transco's Pricing Consultation PC 65 and Network Code Modification 488 there is the creation of a buy-back fund from revenues exceeding the required revenue of £69m. Revenues from the auctions have reached £126m giving an excess amount of £57m. In the implementation of PC65 Transco applied the feature "that excess revenues will divided by six in order to establish monthly amounts". Within modification 488 Transco also defined the parameters for it's incentive scheme giving a target of £10m per month for a zero incentive base.

Transco have clarified that any funds remaining from buy backs under the over recovery amount divided by six will be carried forward to be used in subsequent months, however in the case of buy backs exceeding the over recovery divided by six these funds will be recovered from shippers on the basis of MSEC holding.

For Example – For simplicity assume over recovery of £60m – ie £10m fund per month.

The buy back costs are £20m, £5m and £5m for October, November and December respectively. Although the total buy back cost matches the £30m buy back fund available during this period, MSEC holders will be required to pay some £10m to Transco. Clearly this has significant cash-flow implications for shippers and runs contrary to the intent of PC65 which was to mitigate buy back costs to MSEC holders via the rebate.

In addition it is uncertain when or how any amendments will be made to general transportation prices if there remains a surplus amount in the buy back fund. I would assume that in ascertaining the incentive parameters for Transco that analysis into buy back costs month on month has been done, that could give an indication of the potential cash flow implications for the industry.

NATURE OF PROPOSAL:

The proposal seeks to provide a mechanism within the network code to allow revenues to be rolled forward cumulatively to reduce cash flow exposure for holders of MSEC capacity. In allowing negative balances to be rolled forward against the next months allowance this would better facilitate the objective of PC 65 in rebating over recovery against Buy Back costs.

In the cumulative approach using the example above, instead MSEC holders being required to fund £10m in October the -£10m would be carried forward to November and so on until the fund is fully utilised. If the buy back fund is fully utilised at the end of March 2001 any remaining cumulative buy back costs would be borne by MSEC holders in proportion to their aggregate holdings during the period 1st October 2001 to 31st March 2002.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

The consequence of not making this change is that shippers will be left to face further cashflow risk as a result of the allocation of buy back fund under PC65 / Modification 488. There is also the risk that the stated objective of PC65 of rebating buy back costs will not be achieved.

AREA OF NETWORK CODE CONCERNED: SECTION B TRANSITIONAL DOCUMENT PART II

PROPOSER

PROPOSER:	James Hawkins
SIGNATURE:	
POSITION:	Regulatory Analyst
COMPANY:	Powergen
CONTACT TEL :	02476 42 4737
EMAIL	James.Hawkins@pgen.com