

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0452
"Removal of Monthly Capacity Incentive Limit Amounts"
Version 1.0

Date: 16 January 2001

Proposed Implementation Date: 1 April 2001 (decision required as soon as possible, but at the latest January 30, 2001)

Urgency: Urgent

Justification

The auction of entry capacity for the period April to September 2001 is due to commence at the end of January/beginning of February 2001. Any change to the Transco capacity incentive structure should be determined prior to the start of the auction process in order that both shippers and Transco are fully aware of the commercial terms that will apply for the auction period. Ofgem has recently stressed "the importance of the regulatory principle that for incentives to be effective, they must not change materially within the agreed period ..."

This proposal **MUST** therefore proceed on an urgent basis since normal procedures will not permit sufficient time to implement the proposal prior to the start of the auction process.

Purpose of Proposal

Transco's current incentive revenues and costs are subject to both a monthly and annual cap and collar. This effectively limits Transco's revenue through the sale of daily capacity and its exposure to buy-back costs to a monthly limit of £416 000 and an annual limit of £5 million. Both the monthly cap and collar have been reached in the last twelve months.

Capacity neutrality costs and revenues are shared 20% by Transco and 80% by MSEC holders up until the point at which Transco exceeds its monthly cap or collar. After this both the costs and revenues are shared 100% by shippers. At this point Transco no longer has a commercial incentive to minimise costs or to maximise revenues. This commercial incentive should be retained by removal of the monthly capacity incentive limit.

Nature of Proposal

To strengthen commercial incentives by removal of the monthly cap and collar from Transco's capacity incentive mechanism.

Consequence of not making this change

Transco will continue to have its exposure and revenues subject to an artificial cap and collar.

This will result in Transco losing their direct commercial incentive to either minimise the costs of buy-backs or to maximise revenues through daily sales of capacity. As a consequence, overall net costs to the shipping community may be expected to increase.

Area of Network Code Concerned

Section B 2.11.3

Proposer's Representative

John Williams

Proposer: John Williams

Position: Commercial Manager, Gas Transportation

Company: British Gas Trading

Signature