

Supplemental Report
Removal of entry capacity incentives from the Network Code
Modification Reference Number 0520
Version 2.0

This supplemental report is made pursuant to Rule 8.10 of the Modification Rules and is consistent with the format contain therein.

1. The Modification Proposal

The nature of Modification Proposal 0520 is to migrate the transitional capacity neutrality provisions into the substantive body of the Network Code and to remove provisions relating to the entry capacity buy-back incentive scheme. The entry capacity buy-back incentive scheme would instead be defined within Transco's Gas Transporters (GT) Licence.

2. Transco's Opinion

Conditional upon implementation of Modification Proposal 0500 'Long term capacity allocation', Transco does not believe Modification Proposal 0520 should be implemented.

If implemented, the legal text for Modification Proposal 0500 would achieve the objectives set out in Modification Proposal 0520 but the converse of this statement is not true. If both proposals are implemented with Modification Proposal 0520 being implemented second, the objectives of Modification Proposal 0500 would be frustrated.

3. Summary of representations

The following Shippers submitted representations in respect of the re-consultation for Modification Proposal 0520:

Shipper	Shipper Reference
British Gas Trading	BGT
TXU Europe Energy	TXU
Shell Gas Direct Ltd	SGD

The table below provides a summary of the representations made by Shippers:

Shipper Ref:	Comments
BGT	<ul style="list-style-type: none"> • If Ofgem direct to amend Transco's GT Licence, then the incentive structure within the Network Code becomes redundant. • In the event that Ofgem do not direct amendment of the licence then there must remain the provision for an incentive regime within the Network Code.
TXU	<ul style="list-style-type: none"> • Holding the incentives in the licence may provide greater stability for Transco. • The benefit of increased stability for Transco is outweighed by a loss of flexibility for Shippers to develop a highly complex regime. • Implementation of this modification is, to a degree, inevitable. • If this modification is implemented, a small 'expert' group might be of service in evaluating the interactions of the Network Code and licensing regimes.
SGD	<ul style="list-style-type: none"> • The incentives should remain within the Network Code. • This proposal does not further the relevant objectives. • Assuming implementation, SGD would welcome an explanation from Ofgem in light of SGD's various representations

4. Recommendation concerning implementation of the Modification Proposal

Conditional upon implementation of Modification Proposal 0500, Transco does not recommend implementation of Modification Proposal 0520.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: