

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0542

"Revised Energy Balancing Incentive Arrangements post April 2002"

Version 1.0

Date: 13/03/2002

Proposed Implementation Date: 01/04/2002

Urgency: Urgent

Justification

Transco anticipates that revised System Operator Incentives will be implemented with effect from 1st April 2002. The implementation of these incentives is anticipated to be via Gas Transporter (GT) Licence amendments. However, these Licence amendments will not be in place before 1st April. Transco, therefore, seeks Urgent status for this Network Code Modification Proposal to ensure that these revised arrangements can be put into effect on a transitional basis by the due date, but via the Network Code rather than through Transco's GT Licence.

This Proposal is designed to implement the anticipated Residual Balancing Incentive with effect from 1st April 2002. If approved this Proposal will provide clarity as to the incentive that will apply, and will ensure that the incentives are active from the 1st April 2002. This approach would also ensure that no reconciliation process would be necessary if the current incentive arrangements were allowed to continue but which were then superseded by amendments introduced retrospectively following revisions to the licence.

Nature of Proposal

Transco proposes to introduce the following changes to the current Price and Linepack Incentive Arrangements detailed in Section D of the Network Code. These amendments would be effective from 1st April 2002.

The proposal is to:

Increase the Maximum Incentive Amount for superior performance for each of the above incentives to £5000.

Increase the Annual Maximum Incentive Amount in respect of both Incentive Arrangements to £3.5 million for both superior and inferior performance.

In addition it is proposed to amend the Network Code such that payments/rewards associated with this incentive will not feature as a credit/debit to Balancing Neutrality as is currently the case.

Purpose of Proposal

The propose of this Proposal is to enable the changes to Transco's Price and Linepack Incentive Arrangements to be introduced on 1st April 2002 in anticipation of changes to be proposed by Ofgem through Licence amendments. These changes would facilitate compliance with the relevant objective contained within Standard Condition 9(1)(b), i.e. the efficient discharge, by Transco, of obligations under its GT Licence.

Consequence of not making this change

If this Proposal is not implemented then the proposed changes to Transco's Incentive arrangements, as put forward by Ofgem, will not be effective from 1st April 2002.

Area of Network Code Concerned

Section D

Proposer's Representative

Richard Hewitt (Transco)

Proposer

Tim M Davis (Transco)

Signature

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