

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 382**

**SHORT TITLE:** Revision to Capacity Incentive Arrangements

**DATE:** 3rd February 2000      **PROPOSED IMPLEMENTATION DATE:** 1st April 2000

**URGENCY:** Urgent

**JUSTIFICATION OF URGENT STATUS:**

The Network Code presently requires Transco to commence the auction of System Entry Capacity for use in April - September by 15th February \*. Transco has proposed through Modification Proposal 0380 to increase the aggregate quantity of Monthly System Entry Capacity (MSEC) which Transco makes available. This represents a change in one of the parameters upon which Transco's incentive scheme is based and is likely to result in a significant reduction in the potential for reward during the period from April - September 2000. This proposal seeks to alter the basis of the incentive. In view of the revenue share within the incentive it is important that shippers are aware of the incentive package which will apply from 1st April before the next round of auctions. In order to meet this timetable urgent procedures are required.

\* Modification proposal 0378 proposes to defer this auction start until 6th March 2000.

**NATURE OF PROPOSAL:**

The proposal is that Transco should not be unduly disadvantaged by a rebalancing of the risk reward profile of the incentive mechanism that would result from making available additional MSEC for the period April - September 2000. An increase in MSEC sold in the primary auction would if implemented result in a significant deviation above the median entry capacity requirement as determined by the Seasonal Normal Demand profile. The proposal is that the detrimental financial effect upon the incentive mechanism of increasing MSEC quantities should be offset by means of a monthly sum being made available to Transco to mitigate the changed risk reward balance. It is proposed that this monthly sum be drawn from the balance of monies received from the sale of DSEC.

In each month Transco's aggregate position with regard to the incentive mechanism will be determined by the sum of, the monthly sum, minus 20% of buy back charges, plus 20% of daily capacity charges.

In any month, where the monthly sum is less than the aggregate amount of money which Transco would ordinarily have redistributed to the holders of MSEC at each ASEP ( 80% of all revenue),

Transco will deduct the sum and redistribute the remaining amount to the holders of MSEC at each ASEP in proportion to the revenue received for Daily Capacity services at each ASEP. If in any month the monthly sum is greater than the aggregate amount of money which would ordinarily be redistributed, Transco would retain all available revenue and the uncollected monthly sum would be carried over to the end of the six month period.

Where the recovery of this monthly sum causes Transco to breach its incentive cap, the breach amount will be returned to the holders of MSEC in accordance with existing Network Code procedures. Where all or part of an uncollected monthly sum would cause a breach of the cap, the breach amount will be disregarded and not carried forward to the end of the six month period.

If at the end of the six month period, Transco has been unable to collect the sum of the monthly sums, an “ad hoc” invoice will be issued to capacity holders to facilitate the collection of outstanding amounts. This invoice will be targeted to holders of MSEC in proportion to the level of revenue received for daily capacity services at each ASEP over the period in question.

#### Calculation of Monthly Sum

Transco has proposed making available an additional 10% of MSEC for the period of April - September 2000. Therefore 9.1% (10/110) of the revenue received for each month in the primary auction and from the sale of Unsold Long Term Firm (ULTF) could be viewed as revenue which would otherwise have been received from daily capacity services, of which Transco would retain 20%. For each month the fixed sum Transco receive would be calculated as follows:

$$\text{Monthly Sum} = R * 0.2 * \frac{x}{(1 + x)}$$

Where R = Revenue in Primary Auction for the month + Revenue from ULTF for the month

Where x = Percent of MSEC availability above SND.

#### **PURPOSE OF PROPOSAL:**

During the development of the revised System Entry Capacity regime it was stated, on a number of occasions, that the basis for capacity availability for the first year would be the mean Seasonal Normal Demand level for each month. It is in this context that the parameters of the incentive regime were agreed to provide Transco with an incentive to both make additional capacity available and to ensure that previously sold capacity was available to the extent that shippers wish to use it. The sale of an additional 10% of Monthly System Entry Capacity as proposed by Modification Proposal 0380 increases the risk of buy back. This potentially reduces Transco’s incentive to make additional capacity available which was a key feature of the regime put in place. This proposal will ensure that Transco retains an undiluted incentive to provide additional capacity and ensure that previously sold capacity is available to the extent that shippers wish to use it.

**CONSEQUENCE OF NOT MAKING THIS CHANGE:**

Transco's incentive to make additional capacity available within the New Gas Trading Arrangements will be potentially reduced as a result of the provision of additional MSEC.

**AREA OF NETWORK CODE CONCERNED:**

Section B2

**IDENTITY OF PROPOSER'S REPRESENTATIVE:**

Mark Ripley

**PROPOSER : Tim Davis.**

SIGNATURE:

POSITION: Manager, Network Code.

COMPANY: Transco

**MODIFICATION PANEL SECRETARY'S USE ONLY**

Reference Number: 0382

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