

OFGEM DECISION LETTER No. 0539

"Changes to Capacity Neutrality to enable Implementation of Final SO Incentive Proposals"
Version 1.0

Direct Dial: 020-7901-7327

7 March 2002

UK Transco, Shippers and Other Interested Parties

Your Ref:

Our Ref : Net/Cod/Mod/0539

Dear Colleague,

Modification Proposal 0539: '*Changes to Capacity Neutrality to enable Implementation of Final SO Incentive Proposals*'

Ofgem has considered the request from Transco for Modification Proposal 0539 '*Changes to Capacity Neutrality to enable Implementation of Final SO Incentive Proposals*' to follow urgent procedures. We agree that this modification merits urgent status.

This modification proposal provides that revenues from Overrun Charges should be counted in Transco's buy-back incentive and consequently should be included in capacity neutrality calculations. The proposal further provides that any revenue generated from Daily System Entry Capacity (DSEC) acquired at the day-ahead stage is excluded from capacity neutrality calculations. In raising this proposal Transco has stated that it anticipates revised system operator incentives being implemented via Gas Transporter (GT) Licence amendments with effect from 1 April 2002. However, these licence amendments will not be in place before 1 April. Transco has therefore sought urgency status for this proposal to ensure that the new arrangements can be put into effect from 1 April 2002 through transitional arrangements in the Network Code.

An urgent decision on this process will provide Transco and shippers with certainty on the transitional arrangements for Transco's capacity buy-back incentive arrangements that will take effect from 1 April 2002 before any amendment of the GT licence can be made. On this basis, this modification proposal merits urgent status.

The timetable for the modification proposal to follow urgent status is set out overleaf.

<i>Issued to Ofgem for decision on urgency</i>	<i>5 March 2002</i>
<i>Proposal agreed as urgent</i>	<i>7 March 2002</i>
<i>Proposal issued for consultation</i>	<i>7 March 2002</i>
<i>Close out for representations</i>	<i>20 March 2002</i>
<i>Final report to Ofgem</i>	<i>22 March 2002</i>
<i>Ofgem decision expected</i>	<i>28 March 2002</i>

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or Lynette Camilleri on 020 7901 7431.

Yours sincerely,

Nick Fincham
Director, Gas Trading Arrangements