

24/08/2001

Dear Colleague,

**NOTICE OF IMPLEMENTATION  
MODIFICATION PROPOSAL No: 0488**

"Redesign of Capacity Incentive Regime"

Please note that Modification Proposal No 0488 was implemented with effect from 06:00 hours on 24/08/2001. The Final Modification Report, Version 2.0, was signed by Ofgem on 24/08/2001.

The new Network Code text resulting from this Modification follows.

**Modified Text:**

TRANSITIONAL DOCUMENT PART II

*Add new paragraph 8.1.11 to read as follows:*

"B2.13 In respect of the calendar months October 2001 to March 2002 (inclusive) (each a "**relevant Month**");

- (1) without prejudice to paragraph (11) below and the continued application of Section B2.13 during the relevant Months in respect of calendar months preceding October 2001, Section B2.13 shall not apply and the arrangements set out in paragraphs (2) to (6) below shall apply, such that the difference between amounts received or receivable and paid or payable by Transco in respect of Relevant Capacity Charges and certain other amounts in each relevant Month shall be payable to or recoverable from relevant Users (and such amount shall not be reduced by any amount to be retained or borne by Transco);
- (2) for each Aggregate System Entry Point:
  - (a) "**Relevant Capacity Revenues**" are the aggregate of the amounts payable to Transco by Users:
    - (i) by way of Capacity Charges in respect of Daily System Entry Capacity and Daily Interruptible System Entry Capacity at the Aggregate System Entry Point; and
    - (ii) where any User has negative Available System Entry Capacity, by way of System Entry Overrun Charges pursuant to (and calculated in respect of the amount determined under) Section B5.5.2(ii),

in respect of Days in that relevant Month;

- (b) **"Relevant Capacity Costs"** are the aggregate of the amounts payable by Transco to Users by way of Capacity Surrender Charges and Aggregate Constraint Amounts pursuant to Section I3.7.2, in relation to the Aggregate System Entry Point in respect of Days in that relevant Month;
- (3) in relation to:
- (a) each Aggregate System Entry Point, Transco shall pay to each relevant User an amount ("**Capacity Revenue Neutrality Charge**") determined as:
- (i) where one or more Users hold Registered Monthly System Entry Capacity at the Aggregate System Entry Point in relation to that relevant Month:

$$RCR * URC / ARC$$

where:

RCR is the Relevant Capacity Revenues;

URC is the User's Registered Monthly System Entry Capacity; and

ARC is the aggregate of all Users' Registered Monthly System Entry Capacity,

for that Aggregate System Entry Point in relation to that relevant Month;

- (ii) where no User holds Registered Monthly System Entry Capacity at the Aggregate System Entry Point in relation to that relevant Month:

$$RCR * AURC / AARC$$

where:

AURC is the aggregate of the User's Registered Monthly System Entry Capacity;

AARC is the aggregate of all Users' Registered Monthly System Entry Capacity,

and 'RCR' has the meaning in paragraph (a) above, for all Aggregate System Entry Points in relation to that relevant Month (provided that in the event that no Monthly System Entry Capacity was held by any User at any Aggregate System Entry Point for the relevant Month, 'AURC' and 'AARC' shall be determined on the basis of the most recent calendar month in respect of which a User held Monthly System Entry Capacity at an Aggregate System Entry Point);

- (b) each relevant User shall pay to Transco an amount ("**Capacity Cost Neutrality Charge**") determined as:

$$RCC * AURC / AARC$$

where:

RCC are the Relevant Capacity Costs;

and 'AURC' and 'AARC' have the meanings in paragraph (a) above, for all Aggregate System Entry Points in relation to that relevant Month;

- (4) the "**Capacity Adjustment Neutrality Amount**" for the relevant Month (month 'm') is:
- (a) the sum of:
- (i) the amount of any charge of a kind referred to in the definition of Relevant Capacity Revenues, and of any Capacity Neutrality Charge (payable to Transco), which was due for payment to Transco in month m-2 but were unpaid to Transco as at the last Day of month m:
- (ii) the amount of any interest paid (in accordance with Section S4.3.2) by Transco to any User on any Day in month m by virtue of the User having made an over-payment in respect of any of such amount as is referred to in paragraph (i) above;

less

- (b) the sum of:
- (i) the amount of any charge of a kind referred to in the definition of Relevant Capacity Revenues, and of any Capacity Neutrality Charge (payable to Transco) which:
- (1) was unpaid as at the last Day of month m-3 and was taken into account (under paragraph (a)(i) above) in calculating the Capacity Adjustment Neutrality Amount for month m-1, but
- (2) has been paid to Transco since the last Day of month m-1;
- (ii) the amount of any interest paid (in accordance with Section S4.3.2) by any User to Transco on any Day in month m by virtue of late payment of any such charge as is referred to in paragraph (i) above;
- (5) "**Capacity Neutrality Charges**" comprise Capacity Revenue Neutrality Charges, Capacity Cost Neutrality Charges, Capacity Adjustment Neutrality Charges and User Monthly Capacity Incentive Amounts;
- (6) where:
- (a) the Capacity Neutrality Adjustment Amount (if any) is negative, Transco shall pay to each relevant User; and
- (b) the Capacity Neutrality Adjustment Amount (if any) is positive, each relevant User shall pay to Transco,

an amount ("**Capacity Neutrality Adjustment Charge**") determined as:

$$CNAA * AURC / AARC$$

where CNAA is the Capacity Neutrality Adjustment Amount and 'AURC' and 'AARC' have the meanings in paragraph (3)(a)(ii) above;

- (7) pursuant to the arrangements set out in paragraphs (8) to (14), Transco will pay or be paid certain amounts to or by relevant Users in respect of each relevant Month by reference to the amount by which the Actual Capacity Amount differs from the Forecast Capacity Amount (the "**Revised**

**Capacity Incentive Arrangement");**

- (8) for the purposes of the Revised Capacity Incentive Arrangement for each relevant Month:
- (a) the "**Capacity Incentive Performance Amount**" is the Actual Capacity Amount less the Forecast Capacity Amount;
  - (b) the "**Actual Capacity Amount**" is Relevant Capacity Costs less Relevant Capacity Revenues;
  - (c) the "**Forecast Capacity Amount**" is £10,000,000 (being a positive amount);
  - (d) the "**Lower Forecast Capacity Amount**" is £5,000,000 (being a positive amount);
  - (e) the "**Upper Forecast Capacity Amount**" is £16,700,000 (being a positive amount); and
  - (f) the "**Maximum Capacity Incentive Amount**" is, in respect of both superior performance and inferior performance, £416,000 (being in each case a positive amount);
- (9) in relation to the Revised Capacity Incentive Arrangement, for any relevant Month, Transco's performance:
- (a) is 'superior' where the Actual Capacity Amount is less than the Forecast Capacity Amount; and
  - (b) is 'inferior' where the Actual Capacity Amount is greater than the Forecast Capacity Amount;
- (10) for each relevant Month the "**Relevant Monthly Capacity Incentive Amount**" is:
- (a) where Transco's performance was superior, the amount determined as the lesser of:
    - (i) £416,000; and
    - (ii)  $MCIA * (CIPA / (FCA - LFCA))$ ;
  - (b) where Transco's performance was inferior, the amount determined as the lesser of:
    - (i) £416,000; and
    - (ii)  $MCIA * (CIPA / (UFCA - FCA))$ ;
  - (c) where the Capacity Incentive Performance Amount is zero, zero; and
- where
- MCIA is the Maximum Capacity Incentive Amount;
- CIPA is the Capacity Incentive Performance Amount;
- FCA is the Forecast Capacity Amount;
- LFCA is the Lower Forecast Capacity Amount; and

UFCA is the Upper Forecast Capacity Amount;

- (11) for the purposes of calculating the Actual Capacity Amount no account shall be taken of Relevant Capacity Costs incurred by Transco in the circumstances referred to in Section B2.13.4;
- (12) in respect of each relevant Month for which performance was:
  - (a) superior, each relevant User shall pay Transco the User Monthly Capacity Incentive Amount; and
  - (b) inferior, Transco shall pay each relevant User the User Monthly Capacity Incentive Amount;
- (13) for each relevant User for each relevant Month, the "**User Monthly Capacity Incentive Amount**" is the Relevant Monthly Capacity Incentive Amount multiplied by the User Capacity Incentive Proportion for that relevant Month;
- (14) the "**User Capacity Incentive Proportion**" for a relevant Month is the aggregate of the relevant User's Registered Monthly System Entry Capacity at all Aggregate System Entry Points for the relevant Month divided by the aggregate of all relevant Users Registered Monthly System Entry Capacity at all Aggregate System Entry Points for the relevant Month (provided that in the event that no Monthly System Entry Capacity was held by any User at any Aggregate System Entry Point for the relevant Month, 'AURC' and 'AARC' will be determined on the basis of the most recent calendar month in respect of which a User held Monthly System Entry Capacity at an Aggregate System Entry Point);
- (15) for the purposes of this paragraph 8.1.11 a "**relevant User**" is a User registered as holding Monthly System Entry Capacity at an Aggregate System Entry Point for the relevant Month;
- (16) "**Relevant Capacity Charges**" comprise Relevant Capacity Revenues and Relevant Capacity Costs; and
- (17) Capacity Neutrality Charges shall be invoiced and payable in accordance with Section S (provided that an Invoice Document may specify an earlier Billing Period for the purposes of showing User Monthly Capacity Incentive Amounts payable by Transco or by a User to the Billing Period in respect of which the other Invoice Items on the Invoice Document relate)."

Yours sincerely,

Julian Majdanski  
Modification Panel Secretary