

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0414

"Energy Balancing Incentive Redesign"

Version 2.0

Date: 18/07/2000

Proposed Implementation Date: 01/10/2000

Urgency: Non-Urgent

Justification

As part of the RGTA process an energy incentive was introduced on 1 October 1999. It was recognised that the incentive might need to be evolved as part of the ongoing RGTA development and that Ofgem would analyse the effects of the incentive as part of its review of the first six months operation of the RGTA regime.

It has been suggested that the energy incentive may require amendment from 1 October 2000 to better facilitate the relevant objectives and this has been debated in the Energy Workstream.

This Modification Proposal puts forward an alternative incentive structure to facilitate discussion about how the energy incentive should evolve so that the most appropriate incentive can be implemented from 1 October 2000.

Nature of Proposal

Transco believes that its incentive, in respect of the residual system balancing service that it provides, should be to provide such a service at a minimum cost to the industry.

Whilst the current energy incentive encourages a degree of “price efficiency” in respect of Transco’s system balancing choices, actions which set out to maximise the benefits of the existing incentive structure may not necessarily be consistent with cost minimisation.

As an alternative to the present structure, Transco would therefore propose an incentive based on daily neutrality costs. This might address the perceived shortcomings of the present incentive structure which is based on price alone. Within this framework, Transco believes consideration should be given to:

- the scope and definition of daily neutrality costs for the purposes of the incentive
- the basis for setting the Transco risk/reward mechanism e.g. defining caps and collars on Transco’s exposure, the daily performance measure that would be consistent with zero reward, the relevant sharing proportions to apply between such measure and the values consistent with risk/rewards associated with the collar/cap and any appropriate annual cap/collar.

Purpose of Proposal

The proposal is designed to generate a discussion as to whether Transco's objective function is "total daily balancing neutrality costs" or whether an alternative is more appropriate and to implement a revised incentive if considered desirable.

Consequence of not making this change

The current incentive, which some parties argue is flawed, will continue.

Area of Network Code Concerned

D.3 Energy Balancing Incentives

Proposer's Representative

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Proposer

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Signature

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