

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0417
"Revisions to the Capacity Incentive"
Version 2.0

Date: 27/10/2000

Proposed Implementation Date: 01/10/2000

Urgency: Urgent

Justification

Urgent Procedures are requested to enable the outcome of this proposal to be known to Users prior to commencing bidding for Monthly System Entry Capacity (MSEC) on 14 August 2000. It is possible that changes to the capacity incentive arrangements could have an impact upon User valuations for capacity in those auctions.

Nature of Proposal

Transco proposes that the provisions put in place by Modification Proposal 0382 be removed from the Network Code. Transco would also wish to invite comments upon the continuing appropriateness of other aspects of the capacity incentive arrangements, including the revenue share provision which allocates income from sales of daily capacity on a 20/80 basis between Transco and registered MSEC holders respectively. Respondents may also wish to comment upon the continuing cap and collar arrangements, which limit Transco's maximum risk and reward to +/- £5m.

Purpose of Proposal

The capacity incentive is intended to place incentives upon Transco, which will encourage it to behave in a manner that is consistent with its licence conditions. In particular it should further the economic and efficient operation of the transportation system by providing incentives for Transco to maximise capacity availability and penalties for failure to transport gas to a degree that is consistent with the release of firm capacity.

From April 2000 the quantity of MSEC offered was increased from an average aggregate system requirement to 10% above that level (SND +10%). This change to MSEC quantities was the subject Modification Proposal 0380. It had been anticipated that increased availability of MSEC would change the established risk and reward profile in the capacity incentive. In particular it was anticipated that the potential for buy back would increase and that demand for daily capacity would be reduced. It is now ten months since the capacity incentive was introduced and four months since the increase of MSEC availability, and it is for consideration whether modification is now justified in the light of experience.

Transco would also welcome views on the appropriate balance of risk and reward that is placed upon Transco by other facets of the capacity incentive. At present a cap and collar is in place and

is set at +/- £5m. That cap and collar governs the limit of exposure incumbent upon Transco from this particular incentive. The total is further sub-divided into equal sized monthly totals.

Income from sales of daily capacity is divided between Transco and registered MSEC holders on a 20/80 basis. The allocation to MSEC holders is conducted on an Aggregate System Entry Point (ASEP) specific basis.

Costs from buy back of capacity are also shared 20/80 between Transco and registered MSEC holders. In this instance the allocation between MSEC holders is done on a system wide basis.

All income or costs in excess of £5m or its monthly equivalent are allocated to registered MSEC holders on a system wide basis.

Consequence of not making this change

The provision of Modification Proposal 0382 would continue to apply beyond October 2000. In that event Transco would continue to receive a proportion of capacity incentive income from sales of MSEC.

Area of Network Code Concerned

Section B 2.13

Proposer's Representative

Russell D Cooper (Transco)

Proposer

Tim M Davis (Transco)

Signature

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