NETWORK CODE MODIFICATION PROPOSAL No: 0430

"Removal of Monthly Capacity Incentive Limit Amount"
Version 1.0

Date: 03 October 2000

Proposed Implementation Date: ASAP

Urgency: Urgent

Justification

Entry capacity constraints and the resulting buy-backs at the St Fergus entry point in the first three days of October 2000 have resulted in considerable costs. This will potentially create a situation whereby Transco exposure to costs through the entry capacity incentive mechanism will have reached the monthly cap.

At this point in time the constraint shows no sign of relaxation and as a consequence of the expected breach of the monthly incentive cap Transco will have no commercial incentive to minimise the cost of buy-backs for the shipping community for the remainder of the month of October 2000.

It is important that this proposal is granted urgent status in order that implementation may take effect as soon as possible on a prospective basis, before unacceptable costs are incurred.

Nature of Proposal

An entry capacity constraint has occurred at St Fergus at the end of September and has continued into October 2000. At the present time it is not clear why this has occurred although the overrun of NTS scheduled maintenance affecting the St Fergus terminal is undoubtedly a contributory factor. Resolution of the constraint through buy-backs will result in considerable capacity neutrality costs for October.

Transco has an annual capacity incentive limit of £5,000,000, which is divided equally for each calendar month. The monthly incentive limit is therefore £416,000. In order for Transco to breach the monthly cap, capacity neutrality costs, in total, would have to be in excess of £2,083,333.

Due to the costs incurred in the first three days of October 2000 it is anticipated that this level of costs will be exceeded in the next few days. The proposer does not believe that Transco will able to reduce the net cost by the sales of Daily capacity at all terminals for the remainder of the month.

Capacity neutrality costs are shared 20% by Transco and 80% by all MSEC holders up until the point at which Transco exceeds its monthly cap. After this the costs are borne 100% by shippers.

At this point Transco no longer has a commercial incentive to minimise costs. This commercial incentive should be retained by removal of the monthly capacity incentive limit.

Furthermore, the 20% Transco share of capacity neutrality costs provides, in effect, a degree of compensation for the shipping community for capacity not being made available. The monthly cap should be removed so that shippers will continue to receive compensation for the remainder of October 2000.

Purpose of Proposal

Removal of the monthly capacity incentive limit will ensure that Transco continue to have a commercial incentive to minimise the cost of buy-back. Increased exposure for Transco to the cost of buy-backs will also provide an incentive to ensure that any maintenance work that is still ongoing is completed as soon as is practically possible.

The annual cap will remain at its present £5,000,000 but may require review at the end of the constraint, or before, if costs continue to escalate.

Consequence of not making this change

Transco will have no commercial incentive for the month of October 2000 to reduce the costs of capacity buy-back at St Fergus or any other terminal where constraints occur. Once the monthly cap is breached, Transco will escape any real liability for its failure to supply the level of capacity sold to shippers.

The share of capacity neutrality borne by shippers will increase resulting in higher overall costs to the shipping community. Shippers will, in aggregate, receive very little compensation for capacity not being made available by Transco.

Area of Network Code Concerned

Section B 2.11.3

Proposer's Representative

John Williams

Proposer: John Williams

Position: Commercial Manager, Gas Transportation

Company: British Gas Trading

Signature