TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0687

"Alignment with Transco Licence Changes Relating to the Treatment of the Costs of Locational Actions in Transco's SO Incentive Schemes"

Version 1.0

Date: 12/03/2004

Proposed Implementation Date: 01/04/2004

Urgency: Non-Urgent

Justification

The costs and revenues associated with SO Locational Actions feed into Balancing Neutrality and feature in the price performance measure of Transco's current Residual Gas Balancing Incentive as defined in its GT Licence. Following consultation on the SO incentive schemes for 2004-07, Ofgem notified Transco on 3rd March 2004 under Section 23(3) of the Gas Act 1986 of its intention to change Transco's GT Licence.

These proposed changes to Transco's GT Licence include the introduction of a new definition for 'Locational Actions' and specify how they should be treated with respect to Transco's SO incentive schemes. In particular, the costs and revenues associated with Locational Actions will be removed from the Residual Gas Balancing Incentive and will feed instead, together with Physical Renomination Incentive Charges, into the Entry Capacity Buy-Back Incentive.

This Modification Proposal has been raised in order to ensure consistency between the Network Code and the proposed changes to Transco's GT Licence identified in the Section 23(3) notice.

Nature of Proposal

In order to align the Network Code with the changes proposed for Transco's GT Licence, it is necessary to remove Locational Actions (as to be defined in the Licence) from Balancing Neutrality and include them in Capacity Neutrality, as well as to address associated invoicing arrangements. Similarly, it is necessary to remove Physical Renomination Incentive Charges from Balancing Neutrality and include them in Capacity Neutrality.

Transco believes that the following areas will need to be addressed in aligning the Network Code with the proposed changes to Transco's GT Licence:

1. Remove Locational Actions from Balancing Neutrality;
2. Add Locational Actions to Capacity Neutrality;
3. Remove Physical Renomination Incentive Charges from Balancing Neutrality;
4. Add Physical Renomination Incentive Charges to Capacity Neutrality; and
5. Make associated changes to energy and capacity invoicing arrangements.

This Modification Proposal has been developed to remove inconsistencies in the treatment of revenue streams that would otherwise arise between the Network Code and the proposed changes to Transco's GT Licence as notified under Section 23(3) of the Gas Act on 3rd March 2004.

Purpose of Proposal

This Modification Proposal would, if implemented, make the treatment of costs and revenues in the Network Code consistent with proposed changes to Transco's GT Licence.

Consequence of not making this change

Failure to amend the Network Code would result in the treatment of costs and revenues in the Network Code not being consistent with the proposed changes to Transco's GT Licence.

Area of Network Code Concerned

Sections B, F & S

Proposer's Representative

Mike Thorne (Transco)

Proposer

Mike Calviou (Transco)

Signature

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