



Customers, Shippers and Other Interested Parties

*Bringing choice and value  
to customers*

Direct Dial: 020 7901 7021  
Email: [kyran.hanks@ofgem.gov.uk](mailto:kyran.hanks@ofgem.gov.uk)

03 November 2003

Dear Colleague,

### **Review of Transco's SO Incentives**

In our letter of 13 August we outlined the key parameters of Transco's System Operator (SO) incentives that Ofgem intended to review. In addition, we outlined a number of other issues which we considered should be addressed as part of the review. Ofgem intends to incorporate any changes to Transco's SO incentives which result from the review with effect from 1 April 2004.

The letter invited comments, by 29 August, from shippers regarding the proposed scope of the review. Ofgem received comments from six participants. In general, respondents welcomed Ofgem's approach to the review, and the scope set out in the letter. Respondents welcomed the review of the operation of the linepack component of the Residual Gas Balancing Incentive and a consideration of how locational balancing actions might interact with capacity buy-backs. However, one respondent felt it unclear why including locational actions in the buy-back incentive would be an efficient way forward, and asked for further clarification in the form of worked examples of the interactions between locational actions and buy-backs. A number of respondents suggested that the scope of the review should be widened, to consider interactions with the system operation regime in electricity.

We have, over the past two months, carried out a thorough analysis of Transco's performance against the current incentive scheme for entirety of the formula year 2002/3 and for 2003/4 to date. We have conducted an initial review of the key parameters which had been set for two years to reflect the degree of uncertainty about the likely levels of cost that an efficient operator would incur. In addition, we have carried out analysis for a number of additional areas which had been highlighted in the letter as requiring consideration as part of the review.

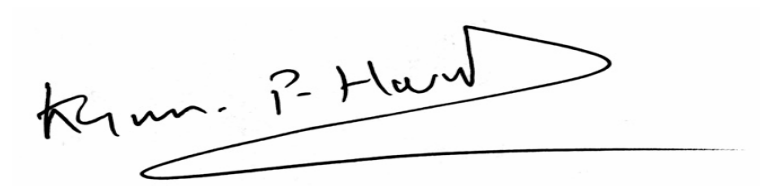
Following on from our analysis and from discussions with Transco we have concluded that we do not intend to propose any material changes to Transco's SO incentive scheme at this interim stage. As such, we have decided not to publish an initial consultation document, and to instead proceed to a proposals document in November 2003.

The November proposals document will contain our review of Transco's performance against its SO incentive scheme to date, Ofgem's views and detailed proposals for changes to the scheme and Transco's report on its performance and proposals for changes to the scheme. Following a

period of consultation with customers, shippers and other interested parties, and in the absence of any material objections to the proposals, Ofgem intends to publish a decisions document in January 2004.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or Sophie Tolley on 7262.

Yours sincerely,

A handwritten signature in black ink that reads "Kyran Hanks". The signature is written in a cursive style and is underlined with a long, horizontal stroke.

Kyran Hanks  
**Director, Gas Trading Arrangements**

cc Tim Davis, Transco