



13 December 1996

Direct Dial : 0171-932-1651

Our Ref : Mods/94

Your Ref :

To: All Shippers

96/12/16/09

Dear Sir/Madam

**Urgent Modification 94 - Capacity Overruns 1st March 1996 to 31st Sept. 1996**

Ofgas have approved urgent modification 94 as it is a pragmatic response to the unanticipated and high level of overruns occurring in the early months of the Network Code. We were especially concerned about the high cost of overruns in the summer months when the true value of capacity was relatively low. A number of the overruns were incurred as a consequence of administrative error where capacity had in fact been traded but not correctly recorded on AT-Link for the purposes of the Code. To retain the correct incentives on shippers it is not appropriate to totally waive the charges in these instances. The reduced multipliers with a £50,000 cap recognise the early learning period for all parties concerned.

It is not appropriate to further amend the multipliers to take account of the issue highlighted by Midlands Gas, i.e. if a shipper under-booked then the cost of the overrun would be less than the cost of the 7 or 12 month capacity tranche obtained from TransCo. Anything that would be gained by increasing the level of overrun multipliers to eliminate any potential windfall from under-booking would be more than outweighed by the adverse consequences to the shipping community as a whole in paying larger overrun charges.

Ofgas has considered Accord's comments in relation to the capacity modifications as a whole, they relate to the level of the charges and their appropriateness in relation to administrative errors but was not convinced that the modification should not be accepted. The Code rightly places incentives on shippers to correctly follow the procedures laid down. Where the procedures or rules are either inappropriate or unclear it is right that they should be reviewed and amended via the modification rules. As noted in previous correspondence Ofgas supports the establishment of a "Disputes Group" within the Network Code to take forward any issues relating to shipper errors.

A review of AT-Link and associated processes should be undertaken in relation to capacity booking and trading. This should aim to minimise inadvertent under-booking of capacity such that any changes are in place for capacity bookings for 97/98 and prior to next winter. Ofgas further welcomes TransCo's intent to produce a guide to capacity booking and trading.

Yours faithfully

A handwritten signature in dark ink, reading "Eileen Marshall". The script is cursive and fluid, with the first name "Eileen" and last name "Marshall" clearly distinguishable.

Eileen Marshall  
Director, Regulation & Business Affairs