



08 April 1997

Direct Dial: 0171-932-1655
Our ref.: PL/123a

Dear sir/madam

Re: Modification Proposals 0123 & 0018

Following the submission of urgent modification proposal 0123 on 5 February, Ofgas has been discussing with Transco, shippers and customers how best to address the issues raised in that modification proposal.

Enron's proposal 0123 seeks to extend the allocation arrangements currently operated by Transco so that they apply to all meter points where annual throughput is in excess of 2 million therms per annum. Unlike existing allocation arrangements, the agreement of incumbent shippers would not be required under this proposal for an allocation arrangement to be put in place. A new shipper would simply have to provide to Transco an allocation agreement which had been verified by the customer.

Transco maintains that this proposal raises a number of issues including the creation of a contractual link between customers and Transco and Transco's potential liability for the effect of allocation arrangements on incumbent shippers.

Review Group 0018 met on 27 March and Transco provided legal drafting for a modification which would allow multiple shippers at large supply points as long as all of those shippers at a single supply point agreed to allocation arrangements. Under Transco's proposal this arrangement would be introduced in very limited phases starting in July 1997. It would be available to all NTS customers from 1 July (i.e. 11 additional customers) and to all customers consuming more than 20 million therms from 1 October (i.e. another 40 additional customers). Transco says this is to limit operational difficulties.

While Ofgas accepts this proposal as a step forward we are concerned that it does not address the specific concerns raised by customers. Allocation agreements are already available through a lead shipper concept where all shippers at a site agree to them. Modification proposal 0018 would simply facilitate agreements in these circumstances as it would remove the need for a lead shipper. However, customers have pointed out that requiring the agreement of incumbent shippers does not address their problems. That is, an incumbent shipper can prevent an allocation arrangement from being put in place at any site. This is being used by some shippers to prevent competition at supply points. Modification 0018 would not resolve this situation.


Ofgas is happy to participate fully in the development of modification proposal 0018 and we do not wish to delay its implementation. However we are very concerned the current arrangements and those currently proposed under modification 0018 would not secure competition between shippers at large supply points.

In contrast to modification 0018, modification proposal 0123 does not require the agreement of incumbent shippers. Modification proposal 0123 is intended to build upon Review Group 0018's current proposal by applying the same allocation process but allowing multiple users at a supply point without the agreement of all users at that point. We have asked Transco to bring forward legal drafting for modification 0123 on this basis. Transco is highlighting concerns it has with regard to this and until these are resolved it says it is unable to draft any final text. Ofgas is concerned that Transco's inability to bring forward drafting may inhibit "the securing of effective competition between shippers and suppliers".

Customers have pointed out that their concerns need to be urgently addressed in time for the next contract round in October.

Ofgas would welcome comments from all parties on the strengths and deficiencies of all of these proposals.

Yours sincerely


pp Kyran Hanks
Head of Network Operations