



22 September 1998

Direct Dial: 0171-932-1645

Our Ref : stf_2009

To all Shippers

Dear Colleague,

Urgent Modification Proposals 271 and 272

Ofgas is very concerned about the nomination behaviour by shippers in the light of the physical availability of capacity at St Fergus. This has resulted in an unacceptable level of balancing costs.

Ofgas is concerned that the current network code provisions and modification proposals (265/265A) will not provide a sufficient solution for resolving this issue. Ofgas believes that costs, and resulting smeared charges, at these levels are damaging competition in shipping and supply and fail to provide adequate protection to consumers.

Transco has put forward two alternative modification proposals to deal with these difficulties. These proposals do not provide a long term solution to the issue of transportation constraints but Ofgas considers that the implementation of one or other of these proposals may be an appropriate short term measure to reduce the impact of the continued high level of costs on shippers, suppliers and consumers. Ofgas accepts, in accordance with standard condition 7 of Transco's licence, that the modifications now proposed should be treated as a matter of urgency. Ofgas has asked Transco also to consider longer term measures to reduce the risk of high smeared charges arising from constraints.

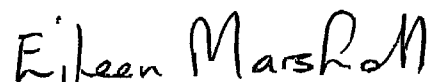
If either of the modifications now proposed is implemented, Ofgas will endeavour to reinforce its effect by monitoring very closely shippers' allocated gas flows, nominations and placing and acceptance of system sell bids. Where the sum of a shipper's allocated flows and the volume of any such system sell bids exceeds its Available Restricted Capacity, Ofgas will give particular attention to the possibility of a breach of standard conditions 2(2) and (3) of the shipper's licence and to the need for enforcement action under section 28 of the Gas Act 1986.

Ofgas recognises that should such a modification proposal be implemented, shippers with little flexibility may not be able to adjust their flows easily to be consistent with their Available Restricted Capacity for system entry. Ofgas considers that the exposure of such shippers would be limited, partly through the ability to trade capacity on the day, and partly through limiting the level of the Restricted Entry Overrun Charge.

Ofgas is continuing its investigation into the high nominations that have taken place at St Fergus this summer and will continue to monitor the situation closely as it develops. Those shippers who have not responded to the request for information on their nominations at St Fergus and their nomination policy as requested by us in our letters of 4 and 11 September will be served with a formal requirement under Standard Condition 9 of the Shipper's Licence.

Ofgas recognises the views expressed by many shippers that some costs resulting from constraints at St Fergus should be apportioned to Transco. We believe that this merits further urgent discussion.

Yours faithfully

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

Dr Eileen Marshall
Deputy Director General