

**Network Code Development**

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22 September 1998

Dear Shipper

**Re: Urgent Modification Proposals 271 & 272 - Interim Revised Capacity Entitlements  
at Constrained Terminal**

You will be aware that over the previous weeks, there have been extensive discussions with the industry with regard to alleviating the costs arising from constraints that have necessitated flexibility system sells at St Fergus. Ofgas has expressed its concern at the continued high level of such costs. Shippers' concerns are evidenced by modification proposal 265 from Eastern Power and Energy Trading and the Transco alternative 265A developed after consultation and meetings with the industry. The decision on this proposal is still awaited, but many parties believe that those proposals will only limit the commercial impacts and not resolve them.

Since the end of August, the daily cost of constraint resolution has been as high as around £500,000. Many believe these costs will continue. Ofgas has therefore asked Transco to raise an appropriate Modification proposal and hence Transco have raised the attached two urgent Modifications. Modification 271 proposes to scale back the capacity entitlement at St.Fergus and Shippers will face an overrun charge if they flow more than their entitlement. Modification 272 extends the overrun principle further to incentivise Shippers to flow within their capacity entitlement.

In view of the serious impact on the shipping community of continuation of the current situation, Ofgas has indicated that short timescales are appropriate. The proposal will therefore be consulted upon for a period concluding no later than 17:00 on Wednesday 30 September 1998, although Ofgas has indicated that this could be shortened dependent on the situation. A modification report will then be made available to Ofgas so that, if appropriate, the modification could be implemented as soon as practicable.

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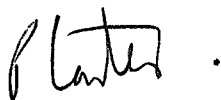
Transco cover letter Mod Proposals 271/272

Ofgas has requested regular updates about gas flow nominations and assessments of potential costs. Ofgas has suggested that in the event of significant increases in the level of industry smeared costs over the next 24 hours consultation may need to be curtailed. If this were to occur, Transco could immediately seek the Director's consent to a modification to the Code under standard condition 7(8)(b) of its licence, outside the normal Code modification process, in order to ensure that an effective modification of capacity entitlement is implemented with effect from Wednesday 23 September 1998.

Transco has agreed that if any of these modification are implemented, we would provide Ofgas with individual nomination and capacity entitlement data which will enable Ofgas better to monitor Shipper activity.

Should any modification be approved, it would be effective for a limited period of 28 days, whilst alternative longer term options are discussed

Yours sincerely



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**John Lockett**  
**Manager - Network Code**