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19 November 1998

Our Ref. : Mod 295

By fax only 0121 711 1451

Dear Steve,

Modifications 295 & 273

Attached is a letter discussing the relationship between Modifications 271, 273 and 295. I should be grateful if you would circulate this letter to all recipients of Modification Reports 271, 273 and consultation papers regarding Modification 295.

You will see from the attached letter that the consultation timetable for Modification 295 has been called into question. To facilitate consideration of this issue, please advise Ofgas as a matter of urgency Transco's estimate of the physical capacity at each entry point at current demand levels. Additionally, Ofgas would also require a comparison of booked annual capacity against physically available capacity.

On a separate issue, Transco agreed to host a Seminar/Workshop to explain more fully how the new capacity services will operate. Ofgas welcomes this offer by Transco and looks forward to receiving details of that Seminar/Workshop in the very near future.

Yours sincerely

A handwritten signature in black ink, appearing to be "S.D.", written over a horizontal line.

Shaun Day
Economic Advisor
Head of Transportation Pricing



To: Network Code Interested Parties

Direct Dial: 0171-932-1689

19 November 1998

Ref.: Mods 271, 273, 295

Dear Colleague,

Re: Modification 273 "Additional Entry Capacity Services at Entry Terminals"

I have been contacted recently by a number of shippers questioning the relationship between Modification 271 (as extended by Modification 288) and Modification 273. Questions have also been raised about the timing of Modification 295.

Introduction

Modification 273 introduced two new entry capacity services, both being offered by auction on a day ahead basis:

- A 'daily' capacity service releasing unbooked, physically available capacity; and
- A 'secondary' capacity service releasing (on an interruptible basis) physically available, booked capacity for which no nominations have been received day ahead.

Modifications 271 and 273

Modification 271, amongst other things, defines St Fergus terminal as a constrained entry terminal for the duration of the modification (as extended by Modification 288) irrespective of nomination levels, booked capacity or physically available capacity. Modification 273 will not make additional services available when a terminal is constrained, that is when nominations exceed physical capacity and therefore cannot be accommodated at that terminal. For clarity it was agreed in the capacity workstream that the text of Modification 273 would clearly indicate that Transco would not accept bids for the new services at constrained entry terminals.

Concern was expressed that if bookings of annual capacity at St Fergus reduced significantly, the new capacity services would not be available due to the wording of Modification 271. As it turns out, capacity bookings at St Fergus have not reduced significantly and this concern is unfounded. Nonetheless, Ofgas expects Transco to monitor continually the situation at St Fergus with a view to introducing the services offered by Modification 273 at the earliest opportunity, ie. if either booked capacity is below physically available capacity or booked and

physically available capacity is not nominated for use. This is unlikely to be before completion of Transco's construction programme. Should this programme be completed before 18 December 1989, Ofgas will consider the early withdrawal of Modification 271.

Modifications 273 and 295

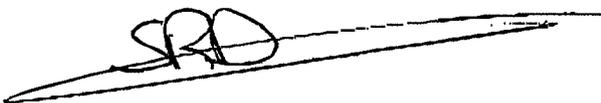
The new services being introduced under Modification 273 are not being offered and supported on AT LINK. Instead, they are being supported through Lotus Notes, manually off-line. Because of this situation and to allow the modification to be introduced in a timely manner, Modification 273 does not allow the new capacity services to be traded on AT-LINK.

Concern has been expressed that then inability to trade the daily capacity service will inhibit within day trading of entry gas. As a result, Accord raised Modification 295 to facilitate the trading of daily capacity. This modification proposal was accepted by Ofgas as urgent with a two week consultation period. It has been argued that this timetable should be shortened. In principle Ofgas believes that where possible urgent Modifications should have sufficient time to be considered properly, especially at the current time where BC99 is placing a strain on the resources of shippers. Furthermore, this timetable will allow Transco to consider methods of facilitating the trading of daily capacity, for instance by offering an after the day fax confirmation service limited to one trade only by the initial holder of daily capacity. Many deals can anyway be facilitated by substituting daily capacity for holdings of annual capacity and using the released annual capacity to support trades.

Nonetheless, Ofgas is sympathetic to the concerns of shippers in this regard. We have today written to Transco asking it to provide an estimate of the physical capacity at each entry point at current demand levels, and a comparison of booked annual capacity with that which is physically available. If the daily service is being used to support significant gas flows, Ofgas will consider shortening the consultation timescale for Modification 295.

Do not hesitate to contact me on 0171 932 1689 should you require clarification of the issues described in this letter.

Yours sincerely



Shaun Day
Economic Advisor
Head of Transportation Pricing