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Our Ref : SD/MOD 274

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Dear Mr Rogers

Final modification report 0274: Retrospective removal of input UGF at sub-terminals when negative SMP sell prices are set

On 22 January Transco submitted to Ofgas its final modification report on modification proposal 0274. This report recommended that Ofgas should reject the modification proposal. However, Ofgas is minded to accept the proposed modification for the reasons set out below.

Ofgas has been consistently supportive of the view expressed by the majority, if not all, shippers that Input UGFs should have been removed from the network code some time ago and was disappointed that modification 232 took so long to develop. Ofgas held this view because it believed that Input UGFs were inappropriate. However, Ofgas recognised that a simple administrative procedure, namely manually inputting a zero in the appropriate field, would allow shippers to avoid exposure to this inappropriate charge.

It is clear from discussions with Enron and Transco that Enron adopted a manual administrative process to avoid exposure to Input UGFs but that process failed during February and March 1997. On some of those days Enron faced what they term 'freak charges' on days when negative SMP sell prices were set. Ofgas believes that in the first instance Enron, and other shippers, should be responsible for administrative errors. However, this modification proposal has clearly demonstrated that on days when negative SMP sell prices are set Input UGFs lead to charges that are not only inappropriate but also extreme in magnitude.

Ofgas has not, in general, since hard landing, been supportive of retrospective modifications to Transco's network code. We believe that this policy engenders an emphasis upon all network code parties to ensure that they take care in the information provided to Transco (as well as by Transco itself). However, as Ofgas made clear in a letter to Transco on modification proposal 192, Ofgas has been willing to allow retrospective modifications, on a case-by-case basis, where it has been demonstrated that a charge is inappropriately high. In this case, Ofgas is convinced that the charges resulting from Input UGFs on days when SMP Sell prices were negative leads to a disproportionately high charge.

Ogas therefore directs Transco under standard licence condition 7 to bring forward legal text to deliver this modification proposal within 2 weeks of this letter. Once appropriate text is received, Ogas will accept this modification.

Please circulate this letter to all shippers.



Justin Coombs

Director of Transportation Regulation