



Shippers, Transco and other interested parties

Bringing choice and value to customers

Our Ref: net/cod/mod/0659 and 0660

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Email: amrik.bal@ofgem.gov.uk

24 October 2003

Dear Colleague,

Request for urgent status for modification proposal 0659 “Winter Injection Cost Allocation Based on User Daily Imbalances” and modification proposal 0660 “Winter Injection Cost Allocation Based on User Daily Off-takes”.

Ofgem has considered Transco’s request that urgent procedures be applied to both modification proposals.

Each proposal involves the recovery of costs incurred when Transco, acting as the Top-up Manager, is required to purchase top-up gas to ensure that pre-determined storage monitor levels – calculated to ensure that security of supply could be maintained in a 1-in-50 winter – are not breached. Gas in store could fall below such monitor levels as a result of storage withdrawal nominations by system users.

At present, in the event that Transco had to purchase top-up gas for the reason outlined above, any associated costs would reside with Transco. Modification proposals 659 and 660, however, each propose that such costs are instead recovered from system users. While the method of calculating the total amount to be recovered is the same in each proposal, proposals 659 and 660 contain different cost recovery mechanisms.

The cost recovery mechanism described in modification proposal 659 involves the recovery of costs based on users' imbalances on the relevant days (as defined in the modification proposal). Modification proposal 660, however, proposes that costs are instead recovered on the basis of users' off-take quantities on days when the Top-up Manager has made a winter injection.

Both modification proposals have been raised by Transco in order, in its view, to incentivise system users to ensure that they have adequate supply and demand-side provisions in place with respect to a severe winter and to help maintain the domestic security of supply standards contained in suppliers' licences.

In deciding to grant both proposals urgent status, Ofgem has taken into account Transco's views regarding the potential security of supply concerns and the current top-up arrangements. Without fettering its discretion, Ofgem considers it regrettable that Transco did not come up with such proposals at a much earlier date so that they could have been considered via the normal consultation process.

In any event, Ofgem would like to make clear that the fact that urgent status has been granted should not be taken as an indication that Ofgem has in any way made an assessment of the merits of either proposal.

The timetable for the modification proposal to follow urgent status will be as follows:

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| Issued to Ofgem for decision on urgency | 24 October 2003 |
| Proposal agreed as urgent | 24 October 2003 |
| Proposal issued for consultation | 24 October 2003 |
| Close out for representations | 07 November 2003 |
| Final report to Ofgem | 14 November 2003 |
| Ofgem decision expected | 28 November 2003 |

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above or Kyran Hanks on 020 7901 7021.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Amrik Bal', is positioned in the upper left quadrant of the page.

Amrik Bal
Storage and LNG, Trading Arrangements