



Direct Dial: 0171-932-6337

16 August 2000

BG Transco, Shippers and Other Interested Parties

Our Ref: Net/Cod/Mod/420

Dear Colleague,

Modification Proposal 420: Change To System Prices

Ofgem have considered the request from V-IS-ON Gas for modification proposal 420, '*Change to System Prices*' to follow urgent procedures. We agree that this modification merits urgent status.

In our recent document '*The New Gas Trading Arrangements*': A review of the new arrangements and further development of the regime: A review and decision document', we have raised concerns about shippers' behaviour in the balancing market and the potential impact of certain aspects of the energy balancing regime on this behaviour including shipper tolerances, cash-out and BG Transco's energy incentive mechanism. In particular, we indicated that the current cash-out and tolerance regime may be encouraging shippers to take end of day imbalance positions.

Further, we also have concerns that under the existing end of day cash-out, tolerance and BG Transco incentive arrangements shippers may have incentives to take within day positions that influence BG Transco's balancing behaviour thereby potentially securing a favourable end of day cash-out price for those shippers.

We believe that these concerns justify granting urgent status to this modification proposal.

Issued to Ofgem for decision on urgency	15 August 2000
Proposal agreed as urgent	16 August 2000
Proposal issued for consultation	17 August 2000
Close out for representations	31 August 2000
Final report to Ofgem	07 September 2000
Ofgem decision expected	14 September 2000

If you have any queries in relation to the issues raised in *this* letter, please feel free to contact me on the above number.

Yours sincerely,

Mark Feather
Head of RGTA