

97/02/25/02



24 February 1997

Direct Dial: 0171-932-1681

ALL SHIPPERS

Dear Shipper

**Modification 0117: Capacity Booking and Associated Rules for Interconnectors**

Ofgas has accepted modification proposal 117.

There are a number of concerns about the nature of this modification. The concept of pre-emption rights when booking capacity appears to us to be inconsistent with Transco's duty to develop the Network Code to meet the relevant objectives. That is we consider that the existence of such pre-emption rights could inhibit supply competition.

Despite these concerns and we have decided to accept the modification on the following basis

- Transco has suggested that Bona Fides must be established to allowed rebooking of capacity. We wish Transco to develop guidelines that will deliver a "use it or lose it" capacity booking regime for all exit points on the system.
- Future Ancillary Agreements (for example the ARCAs for capacity beyond 1998) will not be approved until such guidelines are developed.
- All Ancillary Agreements will need to include provisions to allow those agreements to be changed in order that they are at all times consistent with the Network Code.

Ofgas continues to believe that the proposal addresses a number of important issues and that it would have been preferable to give the industry more time to consider these issues. However, the late presentation of this modification has made a longer consultation impossible given the commercial implications of the current timetable.

Ofgas shares the concern of some shippers that the Network Code is being by-passed by a proliferation of Ancillary Agreements. It may be appropriate that the terms and conditions of all such agreements should be transparent. We are considering this.

Capacity definition and associated rights are currently being considered by the Ofgas Pricing Steering Group and under modification proposal 123. Depending on the results of these discussions, further refinement of the rules for interconnectors may be necessary. These refinements may be possible through the drafting of the Ancillary Agreements or through a further modification to the Code.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Lambert', with a stylized flourish at the end.

Peter Lambert

Regulation and Business Affairs