



Shippers, Transco and Other Interested Parties

Bringing choice and value to customers

Our Ref: Net/Cod/Mod/0592
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24 October 2002

Dear Colleague,

Modification Proposal 592 'Change to the mechanism for recovering the costs of locational balancing actions'

Ofgem has considered the request from AEP Energy Services Ltd for Modification Proposal 0592, '*Change to the mechanism for recovering the costs of locational balancing actions*', to follow urgent procedures. We agree that this modification merits urgent status.

This modification proposal provides for an amendment to the network code to require Transco to pay the full costs of any Market Balancing Buy or Sell Action for the purposes of increasing or decreasing gas flows at a System Point for the purposes of avoiding or remedying a localised transportation deficit.

Under the proposal, Transco would add the Market Balancing Action costs to the level of costs under the System Operator (SO) entry capacity buy-back incentive at the end of the year. It would then determine the payment due to (or from) Transco under the sharing factors, caps / collars and target costs set out in Transco's GT licence with all locational action costs deemed to buy-back costs. To the extent that Transco had overpaid costs during the course of the year, any shortfall would be recovered through an adjustment to the SO commodity charge.

Ofgem considers that urgent consideration of this proposal is warranted. Transco has already bought back significant volumes of entry capacity in recent weeks and has also taken significant locational actions during these constraint periods. In view of this and given that the proposal directly relates to Transco's buy-back incentives we believe, without commenting on its merits, that there is a very real likelihood of a significant commercial impact upon shippers and customers were this proposal not to be granted urgent status.

The timetable for the modification proposal to follow urgent status is set out below:

Issued to Ofgem for decision on urgency	18 October 2002
Proposal agreed as urgent	24 October 2002
Proposal issued for consultation	24 October 2002
Close out of representations	4 November 2002
Final Report to Ofgem	8 November 2002
Ofgem decision expected	13 November 2002

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or Lyn Camilleri on 020 7901 7431.

Yours sincerely,

Mark Feather
Head of New Gas Trading Arrangements