

29 September 2004
Our Ref: ab255-04jml

Julian Majdanski
Secretary to the Network Code Modification Panel
National Grid Transco
NGT House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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A handwritten signature in blue ink that reads "Julian Majdanski".

Network code modification proposals 0639, 0669 and 0671

Thank you for your two letters of 23 September 2004 asking for an indication on the timing of the Authority's decision for a number of modification proposals to Transco's network code.

Before dealing with the specific modifications proposals referred to in your letter, I wanted to offer some more general observations. I can understand the concerns of the Modification Panel about the time taken to process decisions on these particular modifications. I wanted to reassure the Network Code Modification Panel that we do take our role very seriously and that we do strive to take decisions as quickly as possible whilst ensuring that we follow due process.

There are two main reasons why it can take some time for Ofgem to reach decisions on modifications. The first is where a modification proposal raises difficult and complex issues and the decision is not straightforward. The second is prioritisation. In terms of the latter, Ofgem has a finite number of resources and faces pressure to reduce costs. It is also the case that there are competing demands upon the scarce resources available. The gas probe is an obvious example of a competing (and unanticipated) workstrand which has placed additional demands on available resources. As a consequence of such circumstances, the decision making process in relation to modification proposals can be lengthened.

Going forward, we will continue to work to improve turnaround times in relation modification proposal decisions. However, when new and unanticipated work arises and places extra demands on the available resources and/or when particular

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modification proposals raise difficult and complex issues for us to consider, then the decision making timescales may be lengthened.

Your letters highlighted the following three modification proposals for attention:

- ◆ Modification proposal 0639: "Isle of Grain: Change of Status from LNG Storage Facility to Importation Terminal";
- ◆ Modification proposal 0669: "Maximising Availability of Interruption for Security of Supply Purposes"; and
- ◆ Modification proposal 0671: "Enhancements to Winter Injection Process".

The anticipated timetables for issuing these decisions, along with an accompanying explanation, are as follows:

Modification proposal 0639: "Isle of Grain: Change of Status from LNG Storage Facility to Importation Terminal"

This modification proposal was submitted to the Authority for decision on 14 January 2004. In addition to proposing revisions to reflect the changing status of Isle of Grain, the modification proposal also has implications upon the way in which costs associated with Transco's use of Operating Margins at Grain are recovered from Users. Ofgem considers that it is important for these implications to be assessed and understood before making a decision on this modification proposal and the complexity of this issue has lengthened Ofgem's assessment process. Ofgem is reaching the conclusion of its assessment on the basis of the information available and expects to be in position to issue a decision in the coming weeks.

Expected decision date: on or before 15 October 2004.

Modification proposal 0669: "Maximising Availability of Interruption for Security of Supply Purposes"

This modification proposal was submitted to the Authority for decision on 25 November 2003. This modification raised a number of difficult legal issues which needed to be

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carefully considered and this accounts for the length of time taken to reach a decision. After careful analysis of the background to the issues raised, which stretched back to the Centrica/BG de-merger, the conclusion was reached that the modification proposal was outside the scope of the network code and therefore that the Authority was not in a position to either accept or reject the modification proposal. A letter to this effect was published on 27 September 2004.

Modification proposal 0671: "Enhancements to Winter Injection Process"

This modification proposal was submitted to the Authority for decision on 14 January 2004. The issues raised in this modification proposal are linked to Ofgem's review of top up. Ofgem considered that it was important that these issues be considered in the context of Ofgem's review and therefore the timetable in terms of the assessment of this modification proposal was constrained by this factor. Ofgem's conclusions document in relation to its review of top up was published on 16 August 2004. On 23 August, Transco submitted modification proposal 0710 "Removal of top up arrangements" which concerns top up and is therefore related to modification proposal 671. Ofgem expects to be in a position to issue a decision in respect of both modification proposals 0710 and 0671 in the week commencing 11 October 2004.

Expected decision date: on or before 15 October 2004.

I trust that the indicative decision dates outlined in this letter provide sufficient response to your request and that this information will be relayed to interested parties via the next Modification Panel meeting.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact Simon Bradbury on 020 7901 7249 or Matthew Buffey on 020 7901 7088.



ALISTAIR BUCHANAN
Chief Executive