

Direct Dial: 0207-901-7437

2 March 2001

Transco, Shippers and Other Interested Parties

Dear Colleague,

Modification Proposal 456: Exemption from (Mod 414) Zero tolerance/Energy incentive for Irish UK interconnector

Ofgem have considered the request from Bord Gais Eireann for modification proposal 456, 'Exemption from (Mod 414) zero tolerance/energy incentive for Irish UK interconnector' to follow urgent procedures. We agree that this modification merits urgent status.

In July 2000 Powergen UK plc raised modification proposal 415, 'Phased reduction in shipper tolerances'. The modification proposed that shipper imbalance tolerance quantities (ITQs) be reduced to 50% from their current levels with immediate effect and reduced to zero from 1 April 2001. ITQ is a percentage throughput allowance applied to shippers to enable them to deviate from their end of day balance without being 'cashed-out' at system marginal prices.

Ofgem accepted this modification in August 2000 for implementation from 1 October 2000. In approving the proposal Ofgem indicated that there was evidence to suggest that shippers were using tolerances for commercial purposes to avoid trading out imbalances. Ofgem stated that this was inconsistent with the intent behind the tolerance regime to provide limited relief from system marginal cash-out prices in recognition of the uncertainties shippers face in achieving an end of day balanced position. Ofgem indicated that a reduction in tolerances would provide sharper incentives on shippers to trade out their imbalances.

In addition to the reduction of ITQs to zero from 1 April, Absolute tolerance quantities will also cease to apply from this date following Ofgem's acceptance of modification proposal 421, '*Temporary Extension of Absolute Tolerance Quantity*' in

September 2000. Absolute tolerance quantities provide shippers out of balance by an absolute value of 7500 therms with protection from SMP cash-out exposure.

Modification proposal 456 provides for users of the Irish-UK interconnector to be exempted from the forthcoming changes to the tolerance regime.

As the removal of ITQs and ATQs is due to take place from 1 April, we believe that it is prudent to grant this modification proposal urgent status, so that a decision can be made in advance of the removal of these tolerances.

Issued to Ofgem for decision on urgency	27 February 2001
Proposal agreed as urgent	2 March 2001
Proposal issued for consultation	2 March 2001
Close out for representations	16 March 2001
Final report to Ofgem	22 March 2001
Ofgem decision expected	27 March 2001

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