

MODIFICATION PROPOSAL

ALIGNMENT OF CAPACITY AND FLEXIBILITY OVERRUN CHARGES

DATE: 29th June 1998

PROPOSED IMPLEMENTATION DATE: Immediately

URGENCY: The need to improve the energy balancing regime prior to 1 October 1998 dictates that this modification be treated as Urgent.

JUSTIFICATION:

The current misalignment between Capacity and Flexibility Overrun charges means the gas is directed towards the flexibility mechanism at prices below where the gas would trade on the spot market.

Differentials will cause additional complications for the development of the on-the-day commodity market as shippers will require to charge different rates for the same gas depending on whether the counterparty is Transco or another shipper.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Continued bias towards Transco rather than Shipper balancing; reduced liquidity in the within-day spot market; additional complications for pricing on the within-day commodity market.

AREA OF NETWORK CODE CONCERNED: Sections B 2.5 (Flexibility Overruns)

NATURE OF PROPOSAL:

Eliminate artificial distinction between capacity and flexibility overrun charges, by treating Flexibility Overruns as Capacity Overruns.

PURPOSE OF PROPOSAL/ACHIEVEMENT OF RELEVANT OBJECTIVES:

The proposed modification will facilitate achievement of the relevant objectives by:

- * Promoting the efficient and economic operation of the pipeline system by enhancing system utilisation.
- * Encouraging efficient discharge of Transco's obligations under its licence, including efficient balancing of the pipeline system by removing barriers to gas entry on shippers accounts as distinct from the flexibility mechanism.

PROPOSER: Doug Wood

ON BEHALF OF: AGAS, Alliance Gas, Dynegy, Enron, Shell Gas Direct

SIGNED

DATE: 1 July 1998

REFERENCE NUMBER: 0247