



14 August 1998

Direct Dial: 0171-932-1689

Our Ref. : SD/MOD 230, 244, 247

98108/14102

Network Code consultation participants

Dear Sirs

Urgent Modifications: 244: Reduce Overrun charges and 247: Alignment of flexibility and capacity overruns

These urgent modifications are out for consultation currently, with the consultation closing out on 21 August 1998. At the August capacity workstream, it was pointed out that details of the daily capacity service, proposed following modification proposal 230: Changes to System Entry Capacity Rules will be affected significantly by the eventual level agreed for the capacity overrun charge at entry. Ofgas was asked to write to the industry as a result.

The proposed daily capacity auction will make available NTS entry capacity with rights equal to the capacity made available under the current annual capacity service, that is the right to flow gas up to that level without facing overrun charges. It is proposed that the daily service will be allocated via an auction, with a floor price being set to retain some incentive to book entry capacity in advance. A suitable floor price has yet to be agreed, but it is likely to be greater than the equivalent daily capacity rate so as to retain some incentive to book annual capacity in advance. The auction for the daily capacity service will, in effect, be 'capped' by the eventually agreed level of the capacity overrun charge. If the capacity overrun charge is set 'too low', then shippers 'bumped off' the secondary service will have no incentive to curtail their flows. This may increase the incidence of entry constraints. If the capacity overrun is set too high then gas may still be discouraged from entering the system given the relatively low level of daily capacity likely to be made available at some terminals.

Ofgas should therefore be grateful if you would consider explicitly in your responses to the current consultation for urgent modifications 244 and 247, the effect of your preferred level of the overrun charge on the services proposed and being developed following modification 230. In particular:

- How will your preferred level of capacity overrun affect the daily and secondary services proposed under modification 230?
- Should the capacity overrun be set at a level that also encourages a daily service and provides an incentive to curtail flows under the proposed secondary service?
- Would your preferred level of capacity overrun be different if there was no daily service and, if so, what would be your alternative solution?



- Would your preferred level of capacity overrun make the proposed daily service redundant?
- Would your preferred level of capacity overrun make the proposed secondary (interruptible) service ineffective?

Please submit your responses to Transco on the current consultation for urgent modifications 244 and 247 within the currently agreed timetable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'SRD', is written over a horizontal line.

Shaun Day
Economic Adviser
Transportation Pricing