



5 January 1999

Direct Dial: 0171-932-1683

Our Ref : CMS/MOD/24

Mr Julian Majdanski
Network Code Development
First Floor South
31 Homer Road
Solihull
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Dear Julian

Modification Proposal 304 - Low Cost Overruns for LNG

Thank you for your fax of 22 December 1998 in which Transco requested that the above modification proposal be treated as urgent. We agree that the modification proposal should be considered by the industry on an urgent basis. This is because such a modification, if implemented, might be expected to have a significant commercial impact on shippers towards the end of the current winter period.

We propose the following timetable:-

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| • Transco circulates modification proposal | 5 January 1999 |
| • Deadline for representations on proposal | 19 January 1999 |
| • Transco sends modification report to Ofgas | 21 January 1999 |
| • Ofgas decision on implementation by | 26 January 1999. |

The modification proposes that low cost storage withdrawal overruns should be introduced at LNG sites. Under the proposal, the price of storage withdrawal overruns at all LNG sites would be the same as the prices at Rough and Hornsea. Ofgas would welcome views on whether storage withdrawal overrun charges at LNG sites need be identical to those at Rough and Hornsea in order to avoid any false incentives to overrun at one facility rather than another.

Ofgas expressed the concern to BG Storage that changes to the LNG overrun regime might mean that changes would also be required to the mechanisms by which additional transportation capacity at LNG facilities is accessed. We noted that Modification 273 had introduced an auction of transportation capacity only at Rough and Hornsea because low cost storage withdrawal overruns were not available at LNG facilities. As a result, BG Storage has included in Modification 304 the proposal that daily auctions of transportation capacity should also be available at LNG facilities. We would welcome views on whether it is appropriate to replace the existing transportation capacity overrun regime at LNG sites and, if so, whether a daily auction of transportation capacity at LNG sites is the most effective solution.

Please copy this letter to all recipients of the Modification Report.

Yours sincerely

A handwritten signature in cursive script that reads "Andy MacFaul".

Andy MacFaul
Manager, Storage Regulation