BG Transco, Shippers and Other interested Parties

Our Ref: Net/Cod/Mod/440
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29 November 2000

Dear Colleague,

Modification Proposal 0440: Cancellation of the auction of tolerance services by March 2001

Ofgem has considered the above request from Dynegy (UK) in relation to modification proposal 0440: *Cancellation of the auction of tolerance services*. We agree that the proposed modification merits urgent status**.**

On 4 August 2000, Ofgem approved modification proposal 0411: *Postponement of Tolerance Auctions*. This modification proposed that the introduction of the tolerance service should be delayed until 1 April 2001 with tolerances being auctioned in February/March 2001.

In approving the modification Ofgem outlined its concerns with the current tolerance regime indicating that some shippers were using tolerances as an alternative to trading out imbalances. Further, Ofgem indicated its preference for the introduction of a linepack service that would eliminate any commercial incentives on shippers to adopt end of day imbalance positions and which would provide shippers with access to system flexibility. Ofgem also outlined its concerns at the degree of within day profiling activity occurring on the National Transmission System.

In this context, Ofgem accepted the modification on the basis that delaying the tolerance service would allow industry participants further time to consider reforms of the gas balancing regime including the introduction of a linepack service and the development of proposals for better within-day information and cost targeting.

Given the current time scales for the proposed introduction of tolerance auctions in February/March 2001, Ofgem believes that modification 0440 should be granted urgent status. In particular, should the auction be cancelled as a result of any acceptance of the modification Ofgem believes that shippers and Transco should be given sufficient notice to enable them to avoid incurring unnecessary costs, including systems development costs.

Further, granting urgency to this modification will provide the industry more time to assess the commercial implications of Ofgem's decision on the modification and take whatever actions they deem necessary.

We consider that the modification should proceed according to the following timetable:

Proposal issued to Ofgem for decision on urgency	28 November 2000
Proposal agreed as urgent	29 November 2000
Proposal issued for consultation	30 November 2000
Close out for representations	13 December 2000

Final report to Ofgem	18 December 2000
Ofgem decision expected	22 December 2000

If you have any queries in relation to the issues in this letter, please feel free to contact me on the above number.

Yours sincerely,

Mark Feather
Head of RGTA