Shippers, Transco and other
interested parties

Bringing choice
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Our Ref: net/cod/mod/0682
Direct Dial: 020 7901 7008
Email: andrew.walker@ofgem.gov.uk

24 February 2004

Dear Colleague,

Request for urgent status for modification proposal 0682 "Recompense in the Event of Late Completion of Works for New Entry Capacity"

Ofgem has considered BG-Group's request for modification proposal 0682 *"Recompense in the Event of Late Completion of Works for New Entry Capacity"* to follow urgent procedures. We consider that this proposal merits urgent status. The reasons for making this decision are set out below.

Modification proposal 0682 proposes that, when a Long Term System Entry Capacity (LTSEC) allocation has triggered a physical network extension and connection to provide entry capacity in relation to a new system entry point, Transco enters into a Capacity Management Agreement, in accordance with section B 2.8 of the Network Code with the incremental registered users. This Capacity Management Agreement would terminate when Transco's works for expansion are completed. It is proposed that all the capacity allocated would be able to be surrendered to Transco, and the daily offer price would be set at eight times the relevant quarterly auction capacity allocated bid price, subject to a further cap to the level of expected losses or costs caused to the shipper by the delay in provision of capacity. In the event that Transco's works were not completed within 12 months of the capacity allocation date, the capacity management agreement would be terminated and normal capacity management tools would be available to Transco.

The proposer stated that this proposal is linked to an imminent date related event, namely the signing of material contractual commitments to certain new entry capacity auctions and associated agreements by March. They also stated that, if this proposal is not

granted urgency, there is a significant concern that the commercial risk associated with Transco not being exposed to any incentive to complete works on time will jeopardise new projects to supply gas to the NTS.

Ofgem has decided to grant the proposal urgent status. In making its decision, Ofgem has taken into account the proposer's views regarding an imminent date event and has considered they can reasonably fall within Ofgem's guidelines on granting urgency status to a modification proposal. In particular, Ofgem considers that if the modification proposal were to follow non-urgent procedures, its decision could not be reached in time for material commercial commitments to certain projects to be finalised.

In accepting this request for urgency, Ofgem has made no assessment of the merits of this modification proposal.

Ofgem welcomes views on the modification proposal in general. It also invites respondents to comment on some specific terms of the modification proposal and to propose alternative terms when they consider it appropriate. Such specific terms are as follows:

- 12 months of pre-set Transco's daily exposure
- Daily offer price set at eight times the relevant quarterly auction capacity allocated bid price
- Further cap to the level of the expected losses or costs caused to the shipper by the delay in provision of capacity
- Capacity Management agreement to be terminated if works were not completed within 12 months of the capacity allocation date

The timetable for the modification proposal to follow urgent status will be as follows:

Issued to Ofgem for decision on urgency	19 February 2004
Proposal agreed as urgent	24 February 2004
Proposal issued for consultation	27 February 2004
Close out of representations	9 March 2004
Final report to Ofgem	12 March 2004
Ofgem decision expected	26 March 2004 or as soon as possible thereafter

The complexity of the issues involved and the possible legal aspects may also have an impact on the timing of our decision. Also, there may be interactions with modification proposal 680 "Recompense in the event of late completion of works for new system entry points" to consider.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above or, alternatively, Matteo Guarnerio on 020 7901 7493.

Yours sincerely,

Andrew Walker
Director, Transmission