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The Joint Office, Relevant Gas Transporters and other interested parties

Direct Dial: 020 7901 7355

9 August 2005

Our Ref: UNC/MOD/044

Dear Colleague,

Request for Urgent Status for Modification Proposal 044 "Revised Emergency Cash-out & Curtailment Arrangements"

Summary

Transco NTS¹ has written to the Gas and Electricity Markets Authority ("the Authority"²) to request that Modification Proposal 044 "Revised Emergency Cash-out & Curtailment Arrangements" follow urgent procedures.

Following careful consideration, Ofgem has today agreed Transco NTS's request for Modification Proposal 044 "Revision of the Emergency Cash-out Arrangements" to follow urgent procedures. Having considered the request, Ofgem has today agreed for this modification proposal to follow urgent procedures. The reasons for making this decision are set out below.

Background

UNC modification proposal 021 "Revision of the Emergency Cash-Out Arrangements" was raised by Transco NTS on 1 June 2005 and was granted urgency by Ofgem on 2 June 2005. Ofgem subsequently rejected this modification proposal on 29 July 2005 but highlighted in the decision letter the importance of the issues raised and encouraged Transco NTS and other signatories to the UNC to consider whether further modifications in this area should be raised to allow these issues to be addressed ahead of the coming winter. Modification proposal 044 has been raised, in part, to address the concerns highlighted by Ofgem in its decision letter and in part, to address the concerns of National Grid ahead of this coming winter

Transco NTS's modification proposal states that the current cash-out arrangements, which apply during a Gas Supply Emergency, do not provide the most appropriate incentives on Users to make suitable provisions to avoid entering into a Gas Supply Emergency situation, or to minimise the extent or duration of such a Gas Supply Emergency. Transco NTS considers that the modification proposal seeks to provide appropriate incentives on Users in this area.

¹ Transco plc holds two Gas Transporter licences; one in respect of its NTS operation and the other in respect of its RDN operation.

² Please note in this letter, the terms "Ofgem" and the "Authority" are used interchangeably.

Transco NTS's modification proposal also notes that the Authority has expressed concerns in relation to "price sensitive" deliveries to the UK gas market and also questioned whether the currently envisaged cash-out prices that might apply in respect of Gas Days during a Gas Supply Emergency would provide sufficient incentive to ensure such deliveries.

Transco NTS requests urgent status in respect of the modification proposal on the basis that it considers that the revisions to the emergency cash out arrangements put forward in the proposal should be implemented prior to this coming winter. In addition, Transco NTS is of the view that in order to provide sufficient time for the industry to put in place appropriate arrangements for this coming winter, the decision on this modification proposal should be provided as a matter of urgency.

Ofgem's decision on the request for urgency

In light of the comments made by Ofgem in modification proposal 021 and having considered Transco NTS's request, Ofgem has decided to grant the modification proposal urgent status. In reaching its decision, Ofgem has taken into account the proposer's views regarding the imminent date related event, i.e. this coming winter and the potential for a significant commercial impact on market participants if the modification proposal is not considered as a matter of urgency. Ofgem considers the justification for urgency accords with its guidelines for granting urgency status to a modification proposal.³ In particular, Ofgem considers that if the modification proposal were to follow non-urgent procedures, there is a risk that, were the modification proposal to be subsequently implemented, there would be insufficient time for the market to properly consider the likely impact of the modification and react accordingly, prior to this coming winter. Ofgem also considers that if this modification proposal is not treated as urgent, this could have an impact on security of supply for the winter ahead.

For the avoidance of doubt, in accepting this request for urgency, Ofgem has made no assessment of the merits of the modification proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of this modification proposal.

Urgency Timetable

The granting of urgent status and adherence to the timetable below would ensure that the proposal is in a position to be decided upon and if appropriate implemented ahead of this winter. The timetable for this modification proposal will therefore be as follows:

Sent to Ofgem requesting Urgency	09/08/2005
Ofgem grant Urgent status	09/08/2005
Urgent Modification Proposal issued for consultation	09/08/2005
Closeout for representations (9 business day consultation)	22/08/2005
FMR issued by Joint Office (+ 4 business days)	26/08/2005
Panel approve that response reflected appropriately	31/08/2005
Modification Panel Recommendation	02/09/2005
Ofgem decision expected	07/09/2005

The complexity of the issues involved may have an impact on the timing of Ofgem's decision.

³ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf

If you have any queries in relation to the issues raised in this letter, please feel free to contact me or alternatively, Fiona Lewis on 020 7901 7436.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Sonia Brown". The signature is written in a cursive style with a small dot at the end.

Sonia Brown

Director, Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose by the Authority