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Dear Kyran

The review of top up arrangements in gas

Thank you for giving EDF Energy the opportunity to respond to the review of top up arrangements in gas, which has raised a number of interesting issues. Overall, EDF Energy supports the removal of the top up arrangements from the network code and safety case, but we recognise that this may not be possible in time for winter 2004/05. We have, therefore, proposed a number of amendments to the current baseline as discussed under options 2, 3 and 4.

Option 1: The complete removal of top up from the network code (and Transco's safety case)

EDF Energy believes that, if the top up arrangements are removed from the network code, then these arrangements should also be removed from the safety case. We would not support a regime where the top up arrangements are removed from the network code but are still part of the safety case.

EDF Energy supports the complete removal of the top up arrangements from the network code and the safety case. However, this process will take time and may not be possible before winter 2004/05 and therefore interim measures may need to be put in place (please see our responses under options 2, 3 and 4).

Option 2: Changes to the way Transco assesses the need for top up gas

The methodology by which Transco assesses the need for top up gas is not transparent. Transco is required to publish monitor levels by 1 May each Gas Year. However, as was the case for winter 2003/04, Transco republished the monitor levels in November 2003 at much higher values, increasing the probability that Transco would need to take top up manager actions. We note

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that this is not a satisfactory process and Transco needs to be more transparent when determining its monitor levels.

EDF Energy believes that Transco should take into account storage recycling and demand side response in their overall assessment of the supply/demand provision. We agree with Ofgem that a more sophisticated approach to supply and demand forecasting from Transco would reduce the potential for top up to introduce market distortions and reduce the scope for inefficient costs to be incurred as a result of the top up arrangements.

Option 3: Transco to develop alternative ways of contracting to address supply/demand shortfalls

EDF Energy believes that market based approaches could supply extra gas required during times of system stress. We believe that Shippers will be willing to offer gas on the OCM as locational and physical trades. EDF Energy strongly believes that physical trades on the OCM would allow a number of different sites to offer gas to the market. As these trades are posted on the OCM, their costs would feed into the cash out prices.

Option 4: Modify the existing top up arrangements
Change storage rules so that top up counter-nominations result in firm gas delivery

EDF Energy notes that the current use-it-or-lose-it (UIOLI) rules result in the fact that any top up counter-nomination could be off-set by additional withdrawal. EDF Energy does not agree that Transco UIOLI arrangements should be changed. This will have an impact on the storage contracts entered into by Shippers and could lead to an interference with the Shippers Commercial rights under their contracts and legal challenges could potentially occur. Furthermore, EDF Energy has concerns that this would lead to inefficient storage utilisation, by limiting storage cycling and causing increased costs to Shippers in obtaining gas from other sources.

An alternative solution to the storage rules could be for Transco to contract directly with shippers for storage capacity/gas-in store to replace the need to counter nominate by the Top Up Manager to maintain the monitor level. This would negate the requirement for storage operators to give Transco firm capacity. EDF Energy is confident that the Industry can come up with suitable contracts, if it needs to do so.

Publish Storage Stocks

EDF Energy agrees that access to information concerning inventory levels held in different types of storage facility would be beneficial to the market. We agree that access to storage inventory and daily flow information would provide the market with a better means of assessing overall system security. We note that Ofgem has concerns regarding gaming, as Transco's top up actions would be more visible. However, we believe that, as all market participants have access to the same information, it will be difficult to game and this type of behaviour should be relatively easy to monitor.

Calculation of Top up Market Offer Price (TMOP)

EDF Energy notes that, once Transco has entered into the market as top up manager and made gas available at TMOP, this price could set the cash out price. Gas modification 671 makes it possible for the TMOP to be calculated, but this price could have an effect on the market and may reduce participation from the demand side.

Option 5: Redefine top up such that it focuses only on the domestic customer supply security standards

EDF Energy notes that Transco has tried to amend its safety case to remove top-up for non-domestic load but that this proposal has failed. EDF Energy does not consider that this is a viable option and the best option to support is complete removal of the top up arrangements, or the amendments for winter 2004/05 discussed under options 2,3 and 4.

Option 6: No significant changes to the current top up arrangements

EDF Energy believes that the top up arrangements should be modified for this winter but that in the long term top up arrangements should be removed from the network code and the safety case. EDF Energy does not support the current baseline for winter 2004/05.

If you would like to discuss any of our comments further please contact Helen Bray on 020 7752 2518, or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a stylized flourish at the end.

Denis Linford
Head of Regulation