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Reference: **The review of top up arrangements in gas**

Powergen are generally supportive of moves, which ensure Transco play as residual part as possible in the wholesale gas market. We are always concerned whenever transactions have a distorting affect on market prices and hence market signals.

Nevertheless, we recognise that for security of supply purposes there is probably still a role for Transco to intervene in the market to ensure sufficient gas can be brought to the market when needed.

Transco have voiced their concerns that in order for them to meet the revised top up monitor levels, they may be left open to unmanageable costs. We would not support any move to transfer those costs onto Users as the costs can never be accurately targeted at those Users which might have brought about the need for such costs to be incurred. Targeting the costs to Users would lead to less flexibility and efficiency in the use of gas storage. This is because Users would be discouraged from making withdrawals at certain storage facilities if they believe that the notification of a 'Top up Monitor' is seen as likely. This would have the effect of dampening and distorting the gas storage market.

We are concerned that Transco may be 'overstating' its top up requirement and we find it inappropriate for Transco to suggest that high top up costs will force them to breach their safety case

In the event that Transco face disproportionate costs, then they would be entitled to request for the costs to be recovered through an income adjusting event. It is important, however, to ensure that Transco remain incentivised to manage top up economically and inefficiently.

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Potential options:

The complete removal of top up from Transco's network code (and its safety case)

We do not consider it possible to impose any significant changes to the current top up arrangements in time for winter 2004/05. However, we are open to more incremental changes, which may enhance the current arrangements.

Changes to the way Transco assesses the need for top up gas

We would welcome more information from Transco in regards to the methodologies it uses for supply and demand forecasts that underpin their top up calculations. We agree that this would improve transparency and understanding. We would be interested in exploring, as part of an industry work group, other options available to Transco for the way in which it forecasts for the overall supply/demand position for winter.

Transco to develop alternative ways for contracting to address supply/demand shortfalls

We believe that there may be some scope for Transco to develop alternative, more flexible ways for contracting to address supply/demand shortfalls at times of peak demand through interruption arrangements.

Nevertheless, we remain concerned about inappropriate interference by Transco in the energy, as opposed to locational, market and we wish to limit Transco's ability to interrupt for supply / demand reasons, hence we are supportive of modification proposal 699.

We would prefer to focus on change to existing market mechanisms that would provide more comfort to Transco. Mandatory posting by VLDMCs of locational offers on the OCM, for example, would give Transco the confidence that flexibility would be available when they need it. This may in turn enable Transco to reduce its requirement for top up. More details on this idea are set out in the Association of Electricity Producers' response (page 2, point 3).

Modify the existing top up arrangements

- Changing storage UIOLI rules so that top up counter nominations result in firm gas delivery

We accept that UIOLI arrangements may negate any perceived benefits gained from top up counter nominations, however we are concerned that deeming UIOLI capacity unavailable during such periods may give rise to inefficient storage utilisation.

- Publish storage stocks

Powergen remain in favour of any reasonable practice to increase publicity of information. We agree that access to storage inventory and daily flows

would improve the means for assessing overall system supply and monitoring Transco actions as top up manager. This would bring more stability to the market and in turn provide the HSE with more comfort in terms of security of supply.

- The calculation of the TMOP

This remains one of the more complex areas of the top up arrangements and as such, we feel it warrants greater consideration and needs to be explored further within a work group. Previously, when a fundamental review of top up was envisioned, it was accepted such a review would include working groups to afford the industry a greater understanding of the top up regime and as a result, be more equipped to provide detailed and informed assessment of issues. Given the current timing and stretch on resources at this stage and in our view, it does not impact on security of supply this winter, we do not consider review of the TMOP to be prudent at this time.

Redefine top up such that it focuses only on the domestic customer supply security standards.

Powergen do not support this approach. It is clear in Transco's Safety Case that top up gas is provided by Transco to meet any deficits in supply when assessed against firm demands. To attempt to focus top up on any specific customer would not only be inaccurate but could also be considered as discriminatory.

No significant changes to the current top up arrangements

Given the concerns raised in Ofgem's consultation, we do not consider this to be a prudent way forward. If Transco's anticipated high monitor levels were to remain this would lead to a significant distortion in the market.

We look forward to separate discussion papers and workgroups on those areas of top up, which can reasonably be modified in time for this winter.

I hope you have found these comments useful. Please do not hesitate to contact me if you wish to discuss any of this response.

Yours sincerely

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