

Kyran Hanks  
Director, Wholesale Markets  
Office of Gas and Electricity Markets  
9 Millbank  
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02 July 2004

Dear Kyran,

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

Total Gas & Power Limited (TG&P) welcomes the opportunity to comment on the above titled Ofgem consultation paper.

We consider that the initial arguments for removing top up from Transco's Network Code and safety case remain valid. It does not seem appropriate that Transco continue to hold regulated top up obligations given the competitive nature of the UK gas market and the robust emergency procedures recently developed in conjunction with the upstream industry. In addition we are particularly concerned with the potential for adverse market operation and security of supply problems that regulated top up itself may cause.

TG&P agree with Ofgem that Transco counter-nominations, when storage levels fall below the monitor level, effectively isolates gas from the market at the very time it may be needed and potentially creates a multiplier effect on spot prices. We are particularly concerned this may lead to a self-reinforcing negative scenario that encourages more gas to be withdrawn from storage and, as a result of NGT's mechanistic application of the rules, a marked reduction in the availability of peak supplies at the time they are most needed.

Removing top-up obligations from NGT and allowing competitive forces to apply in this area should enable the market to deliver appropriate levels of security commensurate with the best available information; something we note that a rule based mechanism such as top up does not incorporate and is unlikely to be able to achieve. Removing top up obligations from Transco also possesses the advantage of better incentivising those suppliers who are actually required to meet the domestic security of supply standard, since their risk profiles will be sharpened by no longer being able to rely upon NGT procuring top-up insurance on their behalf. Not only would this be logical with attempting to place incentives on those whose obligations it is to meet the relevant standards but it should also reveal the true supply demand fundamentals and thus stimulate the cash out price to a level that is consistent with meeting peak demand. This may also lead to the better economic justification of projects that could lead to the provision of peak supply. Clearly this must be preferred to the current arbitrary top up pricing mechanism that may or may not provide the appropriate pricing signal on and before the peak day and undermine the economic justification for the provision of commercial top up services.

TG&P therefore support the implementation of Option 1. We recognise that a certain



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lead time may be attached to this option, however, if interim measures must be pursued we recommend that this does not distract from the ultimate aim of removing top up from the Network Code and from Transco's safety case.

We note that Transco's safety case appears somewhat contradictory since it states that top-up should be used to meet firm demand but also states that Transco has no obligation to meet 1 in 20 or 1 in 50 demand from Top-Up. It should be explicitly acknowledged in the safety case that Transco only has an obligation to ensure that gas can be transported at these levels not to ensure that a top-up gas mechanism is in place to supply at these levels.

As a pragmatic time limited interim measure, TG&P are minded to support redefining top up in the Network Code only to the extent that it focuses on domestic customers. In addition we recognise that whilst in operation it would be preferable to ensure the methodologies used to assess top up requirements and set the monitor levels are subject to greater transparency and are sufficiently responsive to ensure the best available information is utilised.

In summary TG&P recommend the implementation of Option 1. If interim measures must be pursued we recommend that these are time-limited and do not distract from the ultimate aim of removing top up from the Network Code and from Transco's safety case. We should also add that if top up must be retained then this should be at Transco's own risk without assurance that costs incurred would be recoverable. Please feel free to contact me if you would like clarification on any of the comments above or have any other questions.

Yours sincerely

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