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Dear Kyran

Ofgem's conclusions document: The review of top arrangements in gas; and, Urgent modification proposal 0710: Removal of Top-up arrangements

I refer to the above conclusions document published by Ofgem in August. This document reviews the responses to Ofgem's consultation on top up and outlines Transco's proposed option for reform which would result in the removal of top up. Following the publication of this document, Transco raised urgent modification 0710 (M710) proposing to remove top up from the code. This letter sets out the views of Shell Gas Direct (SGD) to both of these documents.

Shell Gas Direct shares the concerns of many in the industry that the top up monitor levels set by Transco for this winter are likely to have negative effects on the efficient working of the traded gas market. It would appear that counter nominations by Transco could result in gas prices rising much higher than market fundamentals would warrant, which would lead to higher gas prices being passed on to consumers. For this reason, we support measures to reduce the use of top up and/or to radically reduce the levels. We do have a areas of concerns regarding the detail of the proposed changes outlined in M710 which are outlined below:

Timing & Customers

This proposal reinforces the present arrangements whereby large firm DM customers either accept the risk of being interrupted without compensation if there should be a supply emergency or they can make arrangements *ex ante* with their shipper for commercial interruption where some sharing of benefits may be achieved. The expectation must be that the requirement for either type of interruption is rare; ie only when a under-supply resulted in very high prices or led to an emergency being declared. To date, the gas regime has consistently provided sufficient gas into the system to avoid an emergency. However, concern has been expressed that with decline of the UKCS, it may be more likely under-supply could be experienced on high gas demand days over the next couple of winters after which new sources of supply are expected to come on stream. Customers' experiences to date mean that this may not be an area of focus. There may need to be some further education of customers so that they are aware of the impacts of these changes. We consider that Ofgem, as it has a role in protecting customers' interests, should take a lead in ensuring that this occurs.

Interaction with the changes due to sale of NGT's DNs

In order to introduce the safety monitor, Transco “would identify a group of gas customer that in a network gas supply emergency can be physically isolated in a short period of time.” Would this be a one-off exercise or will it be reviewed regularly, eg annually? Assuming that some of Transco’s DNs are sold, which entity will be carrying out this identification process? One option would be for Transco as system operator (SO) to carry out this exercise but thought will need to be given as to how to ensure that there will be no undue discrimination between the DNs. As the Authority has concluded that there is sufficient potential for discrimination between Transco and the IDNs to warrant introducing changes to the regime *ex ante* it would appear that this will need to be considered for this proposal as well. Another option may appear to be to get the DNs themselves to identify these customers. However this would appear to conflict the single SO model which has been agreed for the post-DN sale framework. If M710 is implemented, it may be more sensible to include its provisions in the transitional document.

Based on our understanding, changes to the regime being introduced by Ofgem will result in three different entities being responsible for calling interruptions: NTS TO for NTS direct connects and offtakes; NTS SO for customers “protected by isolation”; and, DNs themselves for DN transportation constraints. We would welcome confirmation that communications with shippers will be channelled through xoserve, the new agency. Otherwise, there could be significant costs introduced which have not been accounted for in any of Ofgem’s RIAs produced to date.

Emergency procedures

We understand that this proposal will not affect the emergency procedures themselves. If Transco becomes “aware that the Safety Monitor levels have been, or are forecast to be breached, then Transco would liaise with the Network Emergency Coordinator (NEC) prior to the NEC declaring a Gas Supply Emergency.” It is only at Phase 3 of the emergency process that Transco would isolate firm demand “protected by isolation”. To do so, Transco will need to be able to contact these customers in a short period of time using contact details provided by customers through their supplier/shipper. If Transco is unable to make contact, they have the right to attend the site and physically isolate. Experience over the past few years has shown that getting a sufficiently high level of correct emergency contact details can be problematic. We understand that these proposals and the new Safety Monitor takes into account the reliability of emergency contact details. In line with previous discussions, we recommend that the gas transporters take a lead role in establishing, verifying and maintaining contact details as they have the long term relationship with the customer. It may be appropriate to revisit this issue in the near future. We consider that this should be funded through price control revenue.

Other comments

We support proposals that reduce the use of top up and/or the associated monitor levels. We are concerned that the changes proposed for the LNG monitor levels could result in market participants removing gas for LNG before it is necessary to ensure that they have access to it before the end of the winter. We recommend that this aspect of the proposal is reviewed and an alternative approach developed.

We would welcome comment on the issues raised in this response from Transco and Ofgem in the final modification report and decision letter.

Yours sincerely

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