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Dear Kyran

The Review of Top Up Arrangements in Gas – Conclusion Document

Thank you for the opportunity to respond to the above document and, in particular, Transco's proposed option for reform.

As we set out in our response to Ofgem's May consultation document on the issue of top up, we are not convinced that it is appropriate to remove the existing arrangements. Rather, we believe that it may be more efficient for one party to have ultimate oversight of security of supply in the event of market "failure". This has been the case over recent years and still no evidence has been presented to suggest that the existence of this "insurance" has reduced either a shipper's incentive to balance its portfolio or a supplier's incentive to meet its customers' demand in accordance with its obligations.

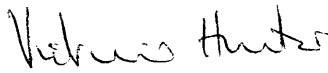
We are particularly concerned that under Transco's proposal for reform there is a considerable risk that supplies to firm customers (although not domestic customers) would be cut off without any action being taken by Transco to try to avert this situation. As far as we can tell from the information that is available to us, all Transco would do would be to flag to the market that there is a risk, or a potential risk, of them invoking a supply emergency. We cannot believe that it is in the best interests of consumers to introduce what is, in effect, a system of rota-disconnections instead of maintaining some sort of top up provision.

We are particularly concerned that the proposals for reform are a knee-jerk reaction to a problem that has not been sufficiently quantified. Ofgem have identified that there is a lack of transparency associated with Transco's supply/demand forecasting process and a question over the appropriateness of some of the assumptions that are used to determine the top up requirements. For example, we understood from Ofgem's consultation paper that Transco's demand forecast is based on an un-diversified demand and that no account has been taken of storage recycling. Given that Transco's proposed (very high) monitor

levels for the coming winter have led to the current “urgent” review of top up, as a minimum, we would have expected these aspects of Transco’s process to have been investigated, understood and justified before any moves were taken to introduce wholesale reform.

Since the publication of Ofgem’s conclusions paper, Transco has issued an Urgent Modification Proposal that, if implemented, would introduce Transco’s proposal for reform that has been outlined by Ofgem in its conclusions paper. We will of course be responding to that proposal. However, in addition to the above overriding concern that the industry is moving in an inappropriate direction without a review of the parameters that initiated the concerns about top up, we are concerned that, as drafted, the proposed regime is extremely opaque in respect of when and what actions Transco would take.

Yours sincerely



Rob McDonald
Director of Regulation