

Terrian Industries

-----Original Message-----

> From: Robertson, Jim A (UK)
> Sent: 10 September 2004 13:22
> To: Kyran Hanks (E-mail)
> Subject: Top up

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> Kyran

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Thank you for the time you took to discuss Top up on Tuesday.

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As a large consumer of gas (340 million therms p.a.) this issue is of great concern to Terra Nitrogen (UK). .

Terra is persuaded of the need for action. If nothing is done we concur with the Ofgem view that, under existing arrangements, the first cold snap in November will lead to an unnecessary price spike(s). This will likely lead to higher prices than necessary for the remainder of winter. Urgent action must be taken. Despite this however we are concerned that removal of top up obligation is a major decision and that there may be better solutions..

Among these are:

(a) Transco should be forced to significantly reduce the 100% monitor levels which come out of its 'black box' model. We wonder why the methodology used by Transco is not fully in the public domain? Lack of this information has not been helpful to understanding the problem. It may well be that Transco's assumptions are unduly cautious. It might be possible to set monitor levels as if for a 1 in 20 cold winter as opposed to a 1 in 50 cold winter (perhaps allowing for a small element of global warming).

(b) An obligation must be put on Transco to buy back storage gas in an orderly, responsible, and cost effective manner. It may be sensible to introduce a lead time of say 1 week before Transco is required to buy back storage.

(c) We remain deeply disturbed that neither the DTI nor Ofgem has taken steps to ensure that in the event of tightness in supply / demand the Belgian Interconnector will cease exporting. Economic theory does of course indicate that in the circumstances where top up would have been used there should be an import rather than an export of gas. However there are now several well documented instances of theory breaking down, and no reliance at all should be placed on economic models in this situation. It is most unfortunate that the DTI in particular appears to not to have reacted to previous industrial consumer concerns on this issue. In our view there is scope for demand side response in the event of high prices. It is extremely difficult, perhaps impossible, to make any accurate estimate of the level of response at particular levels of price. One major difficulty facing large industrial customers is the imbalance of information. We still do not have access to information on line pack, storage levels, and interconnector flows on the same basis as most of the market (i.e. shippers and interconnector partners). Under these circumstances it is hardly surprising that there is some reluctance for customers to enter the market in the sort of way envisaged by Ofgem. The issue of information imbalance is not new. It has been discussed for several years and, although some progress has been made, large industrial customers still have to operate in a market with less information than most other market participants. We

therefore welcome any move towards greater transparency of data on a timely basis.

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Please regard this as our response to the 'Consultation' on top up and as input to Mod 710.

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> Jim