

Impact Assessment of Modification UNC 006(0727)

- We urge Ofgem to accept modification UNC 006. The lack of access to offshore information acts to stifle the efficiency of the UK gas market and is a major factor behind the high and volatile prices which are now a feature of the market.
- The proposal offers a far greater degree of transparency than the DTI phased programme. Whereas the current market structure imposes additional risk and costs on the market, this proposal will promote efficiency throughout the gas supply chain. Suppliers 'cost to supply' should reduce as a result of lowered volatility; the associated risk premium being attached to supplier margins should decrease. Of greater importance, the basic commodity price (in gas and power) should more accurately reflect basic supply / demand fundamentals rather than market speculation.
- Ofgem offers a wide-ranging assessment of the value of the benefits of the proposal. The estimate of benefit derived from reduced market volatility ex Odera and Barclays Capital probably underestimates the value of wider information to the energy markets as these figures exclude the knock-on benefits to wholesale electricity market where prices are being highly driven by the gas market.
- The costs of implementation of this proposal (c.£ 20 million) are relatively small. However, we suspect that widespread installation of duplicate, probably bespoke, metering will delay introduction of the wider release of offshore information. Efforts to avoid installation of duplicate metering should be made, but even in the case of duplication, the overall benefit to the industry far outweighs these costs. Notwithstanding, we would be gravely concerned if supply side threats to withdraw data flows were to become a reality. For this reason we would urge Ofgem/DTI to legislate at the earliest opportunity to ensure continued availability of this information
- Ofgem's document rightly states that very few industrial users are willing to participate in the within day or balancing markets because of perceived risk and potential costs. We agree with this view. Better and more timely information should facilitate greater demand side participation in gas markets. Previous discussions relating to OCM related demand side activity have erred towards discussion on locational OCM bids; this could only be logically supported by terminal level data which reflects the geographic spread of supply and demand.

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