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Dear Sonia

Publication of Near Real Time Data – Modification Reference Number UNC 006

We welcome the opportunity to respond to the above impact assessment and hope that you will find the comments we have made in this letter useful.

We have expressed on a number of occasions our strong concerns about the operation of the offshore gas market. In our view, sustained high wholesale gas prices are not justified by the supply-demand fundamentals, to the detriment of customers and competition. We have therefore highlighted our concerns over the impact that the escalation in gas prices and volatility has had on prices to end users in a number of forums.

When Ofgem published its conclusion into its gas probe in October 2004 wholesale gas prices for 2004/05 winter were 45 per cent higher than they were when Ofgem launched the probe in 2003. Since then prices have continued to rise and further price spikes occurred. As a result, despite concerted efforts to keep our prices down we were eventually obliged to follow our competitors and raise prices to customers earlier this year.

Whilst we welcome any effort to increase transparency in the offshore gas market, we are not convinced that this Modification is sufficient to resolve the underlying issues. We would therefore urge Ofgem to continue its probe into behaviour in the offshore gas market, including if necessary a wider review by the Competition Commission.

Notwithstanding our wider point about the market structure, we have provided below our views on the issues raised in the impact assessment.

1) Benefits of implementation of the Modification

The work undertaken by Department of Trade and Industry (DTI) and Ofgem to negotiate a voluntary scheme between UKOOA and NGT for the provision of additional information was a step in the right direction. However, the staged approach taken to the scheme means that we have not yet had access to the data most closely aligned to the Modification. It is extremely difficult therefore, to calculate the incremental value to market participants that the Modification will provide.

Whilst we believe that the provision of offshore information will help to level the competitive playing field between producer affiliates and non-integrated market participants, we are concerned that the implementation of this Modification could be a retrograde step. This is because terminal operators and/or producers may still choose to withdraw from the voluntary provision of information, despite Ofgem's interpretation of the confidentiality, ownership and reasonable conduct issues.

We therefore remain extremely concerned that the offshore gas producers are not compelled to provide data. The historical structure of the UK gas market, which has resulted in separate regulation for the on and offshore markets, should not be used by the producers to prevent the disclosure of information that enables its efficient and economic operation. As a consequence, we support Ofgem in its preference for a legislative approach to the provision of information rather than voluntary arrangements.

2) Value of Information

One of the key issues that the provision of timely data will address is volatility. The current lack of information has created an extremely short-term market and reduced liquidity along the curve. In the very short term the market uses NGT linepack information to indicate the overall system position, which is clearly not an accurate proxy. As linepack data is published periodically, this creates a snapshot that can generate a completely incorrect view of the system that cannot be verified because of the lack of actual terminal data. The result is a volatile and temporary liquid market followed by longer periods of illiquidity.

Clearly therefore, sub-terminal data would provide more confidence and over time educate the whole market about the supply/demand position. In turn we would expect this to attract longer-term market investors and improve liquidity overall.

3) Risks and unintended consequences

We do have sympathy with the gas producers' concern that the publication of information will harm them commercially. The proposed banding of individual sub terminals over 10mcm/day and subterminals in aggregate over 10mcm/day will not protect all parties from having their commercial positions exposed. In particular storage sites will be affected creating an unintended consequence of the Modification.

We support the Proposer's objective to increase Shippers' ability to balance and therefore reduce their costs. However including storage sites within this Modification will have the opposite effect, as the increased commercial risk will either result in a reduced service or the pass through of higher costs.

Summary

We remain concerned that the lack of transparency of offshore information is causing additional and unnecessary volatility in gas prices and continue to question whether prices in the traded gas markets reflect supply-demand fundamentals. We therefore believe given the continuing volatility and price spikes, the regulatory authorities should launch a formal investigation of the market offshore.

This point notwithstanding, we continue to believe that greater transparency of the offshore gas market will benefit customers by reducing the risks created by uncertainty and a lack of

information in the spot and forward gas markets. We do recognise that there are legitimate concerns over the issue of commercial confidentiality, but with the exception of facilities that cannot be protected by aggregation, particularly storage, we support the sentiments behind this Modification.

Therefore we would support an amended Modification that excludes storage facilities from the obligation to provide hourly data. In the event that storage facilities are not excluded, we do not support the Modification.

We hope that you will find the above comments useful. If you or your team would like to discuss any of the points we have made in more detail, please feel free to call me or my colleague Elaine Delamer House (01738 456263).

Yours sincerely

Rob McDonald
Director of Regulation