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Dear Sonia

Rough Incident and Information Flows

Following the recent incident at the Rough storage facility on 16 February 2006, energywatch wanted to draw your attention to the possible impact that UNC modification 006 (UNC006) may have had on the market if it had already been implemented.

energywatch is mindful that Ofgem's RIA on UNC006 asks for views on how players may have behaved on "interesting" days. Most players have suggested that to go back in time is difficult. However, the Rough incident seems to provide a neat opportunity to examine the potential impact that near real time flow data may have had on the market in light of a specific incident.

energywatch understands from the trade press, that, on 16 February, withdrawal rates from Rough were relatively low (in fact no net withdrawals had been nominated on 15 February), implying that parties were generally using other sources of supply (interconnector and beach flows) to meet demand. In a UNC006 world, all parties would have known the flow positions and would have judged the physical position of the market to be good. When the lunch time news then showed Rough apparently on-fire, followed by Centrica Storage Limited's note to its customers, flows would have already reduced or would be reducing. The market would have known that supplies from Rough had been low and that, while some suppliers would be going to the market, there was unlikely to be any supply shortage.

Prices would still have risen, with some increased buying activity, but the price spike of 80p/therm (nearly a 50% rise on the closing price on 15 February) is unlikely to have been reached. Prices for deliveries at

the end of the month and March would have been likely to rise in a similar way as they did on the day, depending on companies' views on the weather and the possible outage length at Rough.

UNC006 has always been about the operation of the within day market. The Rough incident has shown that, under a real scenario, close to real time data is most likely to result in an economically efficient market response that values actual scarcity as oppose to perceived, possible supply shortages. A reduction in the price spike that occurred on 16 February would have been to the benefit of consumers. We would also note that, were withdrawals of gas from Rough on the day actually very high, the resulting price spike would unlikely to have been higher (as the market seemed to assume the worst), but would also have encouraged gas to come to the market at a time of genuine system stress.

energywatch hopes that these observations are helpful and we would be happy to discuss our views in more detail if that would be of help. We will of course be responding to Ofgem's RIA in due course.

If you wish to discuss any of the points raised in this letter please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs