

Robert Hull
Transmission
Ofgem
9 Millbank
London
SW1P 3GE

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Dear Mr Hull

Proposed Incentive Arrangements for the Provision of NTS Entry Capacity at Milford Haven

energywatch welcomes the opportunity to respond to the issues raised by this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem/DTI/other website.

energywatch fully agrees with Ofgem's principles for new incentive arrangements which would apply to the reinforcement proposed at Milford Haven, but which may also have wider application. It seems self-evident that consumers expect a network operator to make timely and efficient investment in the network and that costs of inefficient investment should fall mainly on the operator. Delivery of safe, secure and reliable supplies of gas is a key priority. Given the important role that Milford Haven will play in this regard, it is necessary to have effective incentives on National Grid Gas (NGG) to ensure that any delays to reinforcement are minimised.

We note that work has begun to provide the necessary reinforcement of the NTS to ensure that the volumes which NGG has already auctioned for the entry capacity at Milford Haven can be met. However, we also note the potential for delays which would require NGG to buy back capacity. In that context, the most appropriate incentives for buy back should apply to NGG if it cannot deliver capacity as promised. Those incentives should be specific to Milford Haven as this is a significant project in terms of the expansion on the NTS and requires separate consideration from incentives arrangements across the wider NTS. Costs should fall mainly on NGG, not on consumers who have limited control on NGG's ability to meet the relevant deadlines for completion of reinforcement.

We have no particular preference for any one of the proposed incentive schemes, particularly as there is insufficient information about the advantages or otherwise of the different options. There also appear to be uncertainties arising around possible completion of the reinforcement which needs to be reflected in appropriate incentive arrangements. Our view is that consumers would benefit most if the incentives arrangements adequately ensure that NGG minimises delays in relation to the original time horizon upon which it auctioned capacity. Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs