Bord Gáis Energy Supply (BGES)
Response to Transmission Price Control Review of the 26th June 2006
Appendix Ref: 104d/06

Introduction

BGES welcome the opportunity to respond to the current Price Control Review and our comments below focus on Appendix 17- Draft enduring offtake impact assessment.

It is with great disappointment that Ofgem have not included Moffat in its cost calculation as Moffat itself is an Offtake from the Transmission Network and Irish Shippers are best placed to evaluate the cost impact at Moffat as a result of changes in capacity rules.

We hope productive dialogue will continue between downstream parties at Moffat and Ofgem, but any analysis could be considered incomplete should Moffat Exit cost implications not be considered.

Question A17.1 – What are your views on the benefit analysis conducted?

As mentioned in previous correspondence on the Price Control Review we have expressed our concern of the proposals being suggested by Ofgem under the Draft enduring offtake.

We appreciate Ofgem's endeavours to try quantify the potential benefits from the proposals. We have reviewed these findings but are not convinced that these benefits will ever materialise.

"Efficient NTS Investment signals"
The benefit of £37.6m seems a bit ambitious and would suggest that National Grid Transco "NGT" have been wasteful over the last number of years. It is inevitable that there will be some investment waste as a result of industrial closures for a variety or reasons, the most obvious in the current economic climate being relocation abroad especially for heavy manufacturing where both energy and labour costs are significantly lower. It is also recognised that the UK gas market is reasonably mature and growth rate will be single figures percentage.

Ofgem note that the perceived historical investment inefficencies have been difficult to identify and so this questions the reliability of comparing the proposed reforms against the status quo in terms of net benefit, given that any perceived "inefficiency" in existing structures have not been quantified.

"Non-discrimination allocation of capacity products"
This benefit of £21m seems very large as prices paid are effectively regulated irrespective of whether obtained through existing mechanism of Exit capacity purchase or any other mechanism introduced.
It is very difficult to anticipate users paying more for capacity than the regulated price. We would dispute this benefit and believe it is inappropriate to include this as it is cannot be prudently justified.

"Reduced incidence's of ARCA"
The anticipated £10m benefit, we do not believe is a real cost as we are not aware that ARCA's have a historic high level of incidences and this £10m amount attributable is not appropriate.

Question A17.2 – What are your views on the cost analysis conducted?

The total costs used seem incredibly low as Ireland alone expects to have up front costs in the £m's through legal and IT costs. It is with great disappointment that Ofgem have not included Moffat in its cost calculation as Moffat itself is an Offtake from the Transmission Network and Irish Shippers are best placed to evaluate the cost impact at Moffat as a result of changes in capacity rules.

We urge Ofgem to revisit their methodology for calculating cost and "cast a wider net" when trying to assess cost by including large industrial customers.

We also note that the costs does not include "Capital Costs" created as a result of the need to enter long-term agreement and the effect this places on Balance Sheet and strain on users endeavouring to obtaining loan funding for their own growth. Shippers have expressed this to Ofgem and Ofgem have noted this in comment 1.102.

This we believe will be one of the significant downsides to any alteration from the current regime and we in Ireland have been expressing this view directly as shippers but also through our regulator. We also believe that the negative impact on industrial growth this will have on Ireland will also be the case for the UK.

Industrial users are currently experience global pressures from lower cost economies and placing additional long term commitments will only cause to place unnecessary strain on their growth in the UK in favour of relocating to the low cost economies.

This movement will also cause for long term commitments to be defaulted upon, creating further costs to NGT in the form of "Stranded Assets" and legal claims in trying to enforce contractual performance.

We believe that both the benefits and the costs are over optimistic and need to be revisited with a degree of prudence and contingencies incorporated to ensure that overall benefits have been appropriately stress tested.

We, as an Irish Shipper, have been opposed to changing from the current Exit arrangements and only foresee unnecessary costs and complication from proposed changes.

Our view remains the same and believe the benefits outlined are over-optimistic while the costs are under-estimated and general prudence is required with proof and justifications that the benefits suggested will actually materialise.

Question A17.3 – What are your views on our assessment of the potential environmental and social impact?

We have not analysed in depth the effect of any reform, and believe Ofgem's assessment that little effect is likely to occur either environment or socially to be broadly correct.

This will also be the case if the current Exit arrangements continues, and therefore irrelevant as a reason to alter the current Exit arrangement.