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Ofgem
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Your Ref: Ofgem doc 116/06

Dear Indra

New entry arrangements for connecting to the gas distribution network: consultation

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 website.

We note that there are currently few entry points with direct connection to the Gas Distribution Networks (GDNs) and that there is unlikely to be a substantial increase in the number of such new entry points in the very near future. However, this does not mean, given that security of supply is a key consideration for GB gas consumers, and that the encouragement of investment in more gas storage facilities would assist greatly in providing security of supply, that consumers are indifferent towards how new entry arrangements to GDNs are established.

Gas consumers require safe, secure and reliable supplies of gas delivered efficiently and at appropriate economic cost. New entry arrangements ought to reflect this. Additionally, if there is a substantial increase in the number of new entry points connected to GDNs in the future, Ofgem ought to consider whether any long-term regime for new entry arrangements established now remains appropriate to ensure that it undertakes its principal statutory duty to protect the interests of consumers.

We agree that it seems sensible for the new entry arrangements to be the subject of contractual negotiation between the developer of the storage facilities which will connect to the GDN and the GDN operator, as there are few new entry points involved and this provides a flexible solution. From our understanding of the gas flow patterns from storage facilities, we would also agree that this solution optimises the operation of the facility compared to a connection to the National Transmission System (NTS) where firm capacity may need to be bought. This should provide consumers with gas flows at appropriate times in line with changes in demand. It would also remove a potential barrier to entry for developers of gas storage. Where the new entry point allows additional capacity to be made available, or a more effective capacity allocation, we agree that the new arrangements should be flexible enough to maximise the use of the new entry point, and that appropriate charging

arrangements should be in place for the GDN operator to recover costs associated with the new entry point.

We would not necessarily agree with this approach otherwise. For instance, we note that any developer of storage facilities will still have a choice between connecting to the NTS and a GDN and that, although the new entry arrangements are not the only criteria for making that choice, consumers need to know that the choice is exercised in a way that provides the most efficient and economic solution for them and for the operation of the network. In other circumstances, namely, connection to the NTS, there remains a strong case for establishing a baseline capacity for a new entry point as this provides clarity on the level of investment required to establish the entry point, ensures that there is a firm commitment from potential users which avoids the possible build of stranded assets, and provides clarity on reinforcement costs which crystallises the cost to consumers.

We also agree that consumers require comfort that, in the absence of contractual agreement about the nature of the connection, including issues around cost, Ofgem will have a role in resolving disputes relating to material matters. Consumers look to Ofgem to safeguard their interests in those circumstances. We agree that the use of appropriate licence conditions will be necessary for consumers to feel that the GDN operator is subject to effective obligations in the establishment of the new entry point. These conditions should seek to enhance transparency and non-discrimination in the application of commercial arrangements. We look forward to commenting on the licence conditions when these are put forward for consultation in line with Ofgem's proposed timetable for establishing the long-term new entry arrangements.

We agree that the existing entry points connected to GDNs should in due course migrate to the new entry arrangements, as the operation of two separate sets of arrangements in parallel opens the process to accusations of discrimination and would lack transparency. We note that there are long-term entry capacity arrangements at Isle of Grain but we would argue that this facility plays a key role in strategic gas supply and, therefore, the arrangements need to be open to greater scrutiny which potentially may arise through migration to new entry arrangements.

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