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Dear Mark

National Grid Gas (NGG) - Offtake Arrangements Final Impact Assessment on modification proposals

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

Consumers expect the delivery of safe, secure and reliable gas supplies in an efficient and economic manner. NGG, through its licence obligations, has a duty to consumers to ensure that it operates an efficient and economic gas transmission system. The vast majority of gas consumers are passive recipients of the service provided through NGG's operation of the National Transmission System (NTS) and therefore look to NGG to manage the risks of network investment and delivery of adequate gas supplies on their behalf.

We note the work undertaken to develop an appropriate regime for gas offtakes from the NTS. Any enduring regime must reflect the needs of consumers that we have highlighted above. Efficient investment can occur if the needs of all existing and potential users of the NTS are clear and based on a firm financial commitment to take agreed volumes of gas. This provides certainty, creates stability around future offtake levels, and limits stranding risks, allowing NGG to develop a long-term plan for efficient investment in the network, replacing existing infrastructure or reinforcing it as necessary. We agree that existing users should retain prevailing capacity rights as otherwise there would be significant disruption to them and a real risk of them losing access to gas which they require for their ongoing operations.

Any requirements above the base level ought to be developed through more flexible products, offered to users for purchase through an open and effective competitive market mechanism to obtain the best value. The mechanism would take into account further costs which NGG may need to spend to deliver additional capacity. NGG should be incentivised, in a transparent way, to keep the costs of the process, and subsequent delivery of flexibility, as low as possible for the benefit of end consumers.

We have concerns, as with the recent proposals associated with gas distribution networks (GDNs), about how network interruption arrangements may operate under a new offtake regime. There are real risks that priority and vulnerable consumers, or those users purchasing gas on their behalf, may be interrupted if they agree to enforceable interruptions. This must be avoided, although we suspect the risk may be much lower on the NTS because of the profile of transmission connected customers. There is also a risk that gas emergency arrangements may be invoked more often and quickly if there is a 'firm' interruptions regime. Given the problems of reconnecting gas consumers, we question the value of arrangements which could result in early declaration of a gas emergency. Interruptions must be managed in a careful and balanced way, avoiding unnecessary operational impact on end consumers.

We note the concerns raised by two proposers of alternative modifications that NGG needs to release forecast and actual data on flexibility close to the gas day to which it applies. We agree that NGG should provide as much information as possible, specifically in relation to flexibility, as users will need to be able to adequately judge their requirements and, if necessary, adjust their gas usage accordingly based on the best data available. More timely and accurate information improves user response and will help to reduce NGG's costs of system operation.

We note Ofgem's comments on non-discriminatory treatment of all GDNs in their purchase of NTS offtake. We agree that GDNs should face appropriate incentives to ensure they purchase adequate, but not excessive, volumes of gas to meet user needs. This approach should keep the costs of operating GDNs lower for end consumers. We also agree that market-based, transparent purchasing arrangements for offtake capacity will prevent NGG from favouring NG-owned GDNs over the others, reducing costs and providing some net benefit as a result.

We note the cost-benefit analysis presented in the consultation. We agree that market participants do have genuine concerns about the implementation of more complex arrangements, regardless of whether their cost estimates reasonably reflect the overall impact. We believe that the Authority should take both quantitative and qualitative criteria into account when reaching a decision on the preferred solution.

The aim of that solution must be to allow NGG to plan the network effectively and efficiently to reduce costs to consumers in the long term. It must allow NGG to reduce system operation costs as a result of more effective planning. It must ensure that competitive and open processes are applied to capacity allocation to keep costs low. It must also ensure that risks sit with those parties best able to manage them rather than with consumers who are unable to do so. There should be a balance within the solution which best reflects these criteria against the potential for complexity and increases in costs.

We have highlighted a number of elements of gas offtake arrangements which would reflect consumers' expectations but believe that none of the modification proposals in their current form provides an optimal solution. The Authority must take into account the key issues outlined above and ensure that a solution is produced which addresses the concerns of consumers.

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