

Robert Hull
Director of Transmission
Ofgem
9 Millbank
London
SW1P 3GE
robert.hull@ofgem.gov.uk

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Dear Robert

LNG Storage price control - initial thoughts consultation

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

We believe that the facilitation of competition in markets for different energy services can promote the interests of consumers. However, until the development of effective and open competition occurs and is proven, the potential for detriment should be avoided. One way to do this is to regulate or limit the price charged by the provider of the relevant monopoly service. This keeps costs low to end consumers based on an assessment, which Ofgem must adopt in updating the current LNG storage price control, of which costs have been efficiently incurred. We believe that this provides the rationale for the continuation of the existing price control on National Grid Gas (NGG)'s LNG storage facilities.

We agree with Ofgem that the use of a price cap remains appropriate, ensuring that the risks associated with non-contestable services lie with the party most able to manage them, namely NGG. Use of a revenue allowance places risks on consumers which they are in no position to manage. It also allows NGG to recover costs which it may incur (as operational or capital expenditure) for its benefit in a competitive market for services which are currently non-contestable, providing an unfair advantage. NGG must bear those costs itself.

We believe that the price control should remain so long as there is evidence that insufficient competition has developed for the non-contestable services that the storage facilities currently provide. Ofgem must undertake rigorous analysis of the degree to which competition is open and effective before agreeing to any removal of the price control. At this stage, without more information about the impact of the double counting of NGG's capital costs relating to the continuance of the tanker load facility for the service provided at Glenmavis to Scotia Gas Networks, we cannot comment further. However, we believe that no party should be able to recover the same costs twice, as these costs are ultimately borne by consumers.

Going forward, we will continue to keep these issues under review as and when they are raised through the next steps outlined by Ofgem, 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