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Your Ref: Ofgem doc 262/07

Dear Robert

LNG Storage price control - initial proposals 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 continue to support the use of a price cap as this ensures that only efficiently incurred costs are recovered until there is clear and objectively verified evidence that there is open and effective competition for the services provided by NGG LNG. We believe that end consumers should not bear the risks associated with costs which they cannot manage. NGG LNG should efficiently manage these costs on behalf of consumers.

We believe that open and effective competition can lead to lower costs, however small, for the services provided by NGG LNG, and benefit end consumers. Ofgem must rigorously monitor how effectively competition has actually developed without setting specific deadlines for the removal of regulation. Effective regulation is necessary to protect the interests of consumers. Consumers should certainly not fund long-term capital expenditure or decommissioning costs, as the associated benefits will also be available to NGG's shareholders. Consumers will bear part of the risk without necessarily obtaining an appropriate share of the reward.

We have no specific evidence to offer on the cost estimates provided in the document but believe that independent verification of efficiently incurred costs ought to be applied by Ofgem in formulating its final price control proposals.

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