

Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

22 September 2005

Dear Julian

Re: UNC Modification Proposal 0035

energywatch wishes to submit the following in response to the above modification proposal.

energywatch is concerned that the proposal is unlikely to benefit consumers and for this reason believes that it should not be implemented.

According to the Proposer the proposal is necessary to align the Safety Case with the UNC, which is a reasonable justification as long as the changes do not generate unacceptable levels of costs and any costs that are generated are correctly targeted.

In essence, the proposal seeks to maintain system security by targeting certain storage Users, depending on which class of storage facility breaches the prescribed monitor levels. On this basis, it would seem that those Users who have acquired storage capacity to meet their needs, particularly high demand from their portfolio of customers, are limited in when they can access gas in store. We suspect that if this proposal were to be implemented it would undermine certain Users storage provisions and ultimately lead to additional costs which ultimately will be borne by customers.

Although, energywatch is in favour of maintaining system security it is important that particular Users are not unfairly burdened with the costs of meeting this objective. The approach should be to share the costs fairly across Users, to avoid discrimination and skewed market signals.

The proposal is likely to encourage Users to withdraw gas from storage facilities prematurely, which in turn will inflate peak day prices and compromise system security. In addition the effective restriction placed upon the commercial operation of storage facilities is likely to deter additional investment in new, or existing storage facilities. These outcomes are clearly inconsistent with the Relevant Objectives against which the proposal should be tested.

On the demand side, it is evident that as storage supplies maybe restricted during periods of high demand, or where the supply/demand balance is tight,

then transporters are likely to need additional volumes of load shedding e.g. additional interruption. energywatch is concerned that the effect of a misdirected modification proposal would be to look to consumers to balance the system. This is particularly pertinent at the current time, as it is expected that by 2007 the transporters will introduce new interruptible contracts which, in theory, will be more market orientated than the current price administered arrangements. It would appear to be extremely untimely to expect transporters, Users and customers to enter into contracts when the expectation is that the contractual environment will change in the next two years.

energywatch is very concerned with the potential impacts the proposal would have on the gas wholesale prices which have increased exponentially over recent months. energywatch believes that any potential changes to the UNC which place additional upward pressure on wholesale prices should be viewed with express caution.

We believe that system security must be a priority, but more even-handed approaches should be considered. This might be achieved by encouraging Transco NTS to employ the system management tools it has as its disposal, and/or by sharing the costs of security of supply across all Users. These approaches would ensure that Users are not incentivised to behave in a perverse manner and wholesale prices are not unduly inflated.

We trust that you find these comments useful and if you have any questions please contact Carole Pikeathley on 0191 221 2072.

Yours Sincerely

Carole Pitkeathley
Head of Regulatory Affairs