

Mr. Julian Majdanski  
Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ  
[enquiries@gasgovernance.com](mailto:enquiries@gasgovernance.com)

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Dear Julian

**Re: Modification Proposals 0116V/0116VD/0116A/0116BV/0116CV:  
“Reform of the NTS Offtake Arrangements”**

energywatch welcomes the opportunity to respond to the issues raised by these modification proposals. This response is non-confidential and we are happy for it to be published on the relevant website.

We start from the basic premise that the main requirements of all consumers, but particularly the most vulnerable, are that all regulated gas networks are provided in an efficient and economic manner, ensuring that there is both a safe and secure supply of gas. Where consumers are unable to access gas currently, we also strongly believe that adequate incentives are required to ensure that networks are extended to these off-gas communities in a safe, secure, efficient and economic manner.

We also believe that any network operations regime should have the basic characteristics of transparency, relative simplicity and predictability. Users should have reasonable certainty that gas will be provided when requested but should also be willing in return to give firm financial commitments, where network extensions are to take place in particular, that they will use the capacity purchased. If they cannot do so, there is a real risk of asset stranding, the cost of which will ultimately lie with consumers. Firm commitments, and, at least, the willingness to trade unused capacity through effective ‘use it or lose it’ arrangements will provide efficiency in network operation.

We believe that firm commitments to purchase capacity should be undertaken on a non-discriminatory basis where possible, so that there is no bias in securing capacity which could then lead to inefficient investment. We also consider that network extension and replacement is, on the whole, a result of firm commitments to purchase capacity.

Network investment is not driven by flexibility, which is largely a short-term variation around the margins of firm usage, as users can never completely guarantee that their firm offtake volumes across a particular day may not be affected by operational variability. This does not mean that short-term flexibility is not necessary or that it should not be valued, as there is a cost attached to constraints and rationing of capacity when firm commitments cannot be met.

In the context of the various proposals put forward to advance the reform of gas offtake arrangements, we note the different stances taken to provide some certainty to operators and users about how the networks will be employed and how best to provide efficient future investment by National Grid NTS. We also take into account the concerns of many users and large consumers that a complex and costly set of arrangements could increase inefficiency rather than decrease it, deter new market entrants, hamper security of supply and lead to an increased risk of asset stranding which ought to be avoided. Furthermore, if the use of complex arrangements consequently impacts on the offtake of gas-fired power stations and their ability to access gas on a short-term flexible basis, there are real concerns about the effect on security of power supply as well as of gas supply.

We also take into account the views of those proposing alternatives to National Grid's proposal UNC 116V that the means by which to value and deliver the flexibility product through UNC 116V may lead to increased charging for flexible capacity separately when what is required is a value for flexibility which recognises some tolerance around the request for fixed capacity.

We do not express a preference for any of the proposals as set out but, bearing in mind our comments above, it seems that UNC 116V alone does not fit the requirements for a simple, predictable and transparent regime for gas offtake and may indeed increase costs to users and ultimately to consumers. It could also potentially impact on security of supply if the incorrect signals arise from the booking of firm or flexible capacity, or indeed if users misinterpret signals. If users such as DNs, who are responsible for delivering gas to the majority of consumers, are constrained off the network through a more complex arrangement, we would clearly be concerned about the impact on availability and costs of gas to 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

Regulatory Affairs , 7<sup>th</sup> Floor, Percy House, Percy Street, Newcastle upon Tyne  
[www.energywatch.org.uk](http://www.energywatch.org.uk)

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**energywatch** is the trading name of the Gas and Electricity Consumer Council