

**EIUG Response to draft DTI Report of the Gas Prices Working Group**  
(received 13 July) and Annexes (received 14 July).

In overview, EIUG considers that the Report fails to recognise the seriousness of the current situation which is already leading to UK plant closures and job losses.

EIUG is anxious to ensure that the process of agreeing a joint report reaches a satisfactory conclusion and that the meeting with the Minister on 20 July is productive, but cannot support the report as it is currently drafted.

EIUG fundamentally disagrees with the complacent assumption that uncompetitive UK wholesale gas prices are a temporary phenomenon simply reflecting physical constraints, which are largely expected to be alleviated over the next two or three years. We believe that the underlying problem is the way in which the UK market is distorted by the influence of its unliberalised European neighbours. So long as this situation remains, the security of our gas supplies and the competitiveness of our energy markets will remain compromised.

We regard it as essential that a RTPA regime is applied to the interconnector and the UK's monopoly storage facilities. This would not constitute an intervention in the gas market - it would however be a logical extension of the regulatory system that already applies very successfully to the onshore monopoly transportation system, which is rightly seen as the benchmark against which other European systems should be judged.

We reject the validity of the price comparisons contained in the draft Report and Annex B in particular. UK consumers purchase gas at prices related to those at the NBP - indeed, there is no option to purchase at any other price (e.g. oil-indexed). However, it is unheard of for industrial gas to be bought by consumers at continental hub prices. For example, as FEDICHEM (the Belgian Chemicals Federation) has confirmed, no-one in Belgium buys industrial gas at Zeebrugge prices. A comparison based on differences between NBP and continental hub prices grossly understates the extent of the competitive disadvantage currently being faced by UK consumers. As we have repeatedly pointed out, a proper comparison is between NBP and border prices.

We also question why there is so much emphasis on the historical position, since this is supposed to be a report reflecting our concerns about the forward gas market.

The report fails to reflect the extent to which the competitive situation has deteriorated in recent months. Contrary to the misleadingly benign picture painted in Annex B, new contract prices to large industrial consumers are already more than 30% higher than their equivalents in France and more than 40% above those in Germany - a situation that is set to get worse over the coming months.

We cannot accept the assertion that companies have the option of purchasing longer term contracts in order to lock in the price for many years in advance. Energy intensive businesses that do so at current prices would lock themselves into a huge competitive disadvantage for years ahead - it is not a commercially sustainable option. Nor can it be acceptable that industrial closures may be required over the next two winters, in anything less than average demand conditions, in order that an emergency shutdown of the gas system can be averted.

We disagree that incentives on gas producers are adequate and hence reject the assertion that there is no need for additional measures to maximise supplies. The recommendation that 'Ministers and officials will take every opportunity to stress to producers the importance of securing maximum flows of gas' implicitly endorses our view, since such an initiative would be pointless if current incentives were indeed adequate. Further, the need to ensure that existing and new import capacity actually delivers physical gas has not been addressed and we believe it is very likely that this capacity will not be fully utilised.

In the light of these concerns, we believe the recommendations contained in the draft Report are grossly inadequate. We know that other EU governments are taking action to preserve the competitiveness of their industrial energy supplies. We believe the UK government would be negligent if it failed to do the same, and should be held to account for the consequences.