

Summer interruptions to UK gas supplies are without precedent and could not reasonably have been foreseen by customers. Such interruptions are particularly disruptive compared with 'normal' winter interruptions for which customers prepare in order to minimise the impact on production. Preparation typically includes the maintenance of back up fuel stocks, which in the normal course of events may be safely run down over the summer period.

With hindsight, it is clear that Transco could have done more to inform interruptible customers of the increased likelihood of summer interruptions some time before the unfortunate coincidence of events that took place on 17 June. It would have been preferable for customers to have heard directly from Transco, rather than via shippers, once the risk of interruptions became material. We would expect that a number of lessons have already been learned in this regard. EIUG recognises that Transco alerted customers of interruptions a few hours ahead of the contractual deadline for notification, which was a sensible precaution under unprecedented circumstances. Transco has subsequently provided a considerable amount of information about the way in which the situation arose and the action they took, for which credit is also due.

The apparent lack of response by the interconnector shippers to locational bids is suspicious. In a properly operating market, a substantial response would have been expected, especially at the prices Transco was apparently prepared to accept. This is especially relevant to the events on 17 June because it appears Transco could easily have accommodated the other supply problems without recourse to interruption, etc., had it not been for the massive export flows from Bacton. EIUG has had long standing concerns about the operation of the interconnector and its malign influence on the UK market. Its current contribution to security of supply is minimal, indeed it has recently been exporting at record rates without a single month of net importation over the last winter period. Its practical function is to enable producers to benefit from artificially high oil-linked continental prices whilst increasing demand (and hence prices) in the UK market. It has not proved possible for consumers, or presumably other independent UK parties, to source continental gas and transport it via the interconnector for use in the UK. The asymmetry of influence of the interconnector is therefore a matter of real concern. Continental gas market liberalisation will help, of course, but this is recognised to be many years away and cannot therefore address the immediate problem. EIUG questions whether exit capacity currently available to the interconnector is excessive and whether, in the light of recent events, it should be scaled back.

We understand that the problems on 17th June arose largely because of the coincidence of planned and unplanned outages affecting supplies to the southern terminals. Consumers have a right to be assured that supply implications are properly taken into account when offshore maintenance is scheduled, and that field or sub-terminal outages are not staged in order to withhold supplies from the market with a view to holding up prices. Such concerns spring from the knowledge that such abuses have been proven in other national gas markets, but might to some extent be dispelled if information on outages were more widely available.

EIUG's concern about the inequitable access to offshore information is a matter of record. Some market participants - especially customers - continue to be at a

disadvantage compared to those who enjoy privileged access to market sensitive information on outages. The case for reform in this area would be further strengthened by evidence that wider access to information on the southern sub-terminal and field outages could have improved market response in the period around 17 June.

Transco has provided compelling evidence that within day flow profiling by shippers has been an increasing problem in recent months. Such behaviour compromises security of supply by eroding linepack and forces Transco into otherwise unnecessary and potentially expensive balancing actions, the costs of which are ultimately borne by customers. EIUG believes Ofgem should establish whether profiling could have been a contributory factor exacerbating the southern supply deficit on 17 June.

EIUG supported provision for further network investment to enhance summer flexibility in the run up to Transco's last price control. More could of course be done in this area, but it is debatable whether even the most flexible of systems could have coped with a localised supply shortage of the extent Transco experienced on 17 June. Before resorting to interruption, Transco made use of a range of locational tools at its disposal, some with limited success. We cannot offer a particular insight as to why physical reaction to locational purchases was so low. The lack of offers of locational flexibility may partly be blamed on the operation of the interconnector (as discussed above) but it is also possible that more could have been done on the demand side. If there was thought to be value in encouraging a greater role for industrial demand in providing opportunistic commercial interruption services, Transco and others might wish to explore this directly with potential participants.

These events have emphasised the crucial role played by interruptible demand in ensuring security of supply. In our view, future work on changes to the current exit regime - if required at all - should proceed with the greatest caution.

EIUG believes Ofgem should launch a formal investigation into the broader issues of security of supply raised as a result of the summer gas interruptions. Amongst other things, the investigation should consider:

- the role of the interconnector
- the manner in which offshore maintenance is scheduled
- the advantages of equitable release of offshore and sub-terminal information
- the effects of within day flow profiling by shippers
- the adequacy of Transco's current locational balancing tools and investment for summer flexibility

and the combination of all these factors in ensuring security of supply.