



CHEMICAL INDUSTRIES ASSOCIATION

Initial thoughts on enduring incentive schemes supporting the offtake arrangements

The CIA welcomes the opportunity to comment on the enduring incentive scheme supporting the offtake arrangements. We would like Ofgem to note that we do not support the proposed reform of the offtake arrangements, as it will introduce undue complexity and costs to consumers, as well as volatility in transportation charges. The current arrangements provide adequate long-term investment signals through Transco's planning process. We would like Ofgem to act in the best interests of the consumer and not to progress reform of the offtake arrangements as part of the Gas DN sales process.

Please see our comments below on the specific questions in the consultation document:

- CIA agrees that the proposed form, scope and duration of the NTS and DN enduring incentive schemes should initially be set for five years with a possibility of being reopened after one year of operation;
- the CIA finds it hard to comment on the appropriate methodology to be used in defining baselines for both NTS exit capacity and NTS exit flow flexibility. We would like to ensure that the maximum capacity is made available to our member sites, but we are concerned at the knock-on effect in terms of buy back costs and we require further information before we can support any of the options proposed;
- we note that baselines increase over time for entry capacity and believe that this could be applied to exit capacity, however, we would require more information on how this could interact with the purchase of long term exit capacity before we could support a specific option;
- the CIA believes that the concept of substitution has been introduced at a late stage to deliver an incentive on shippers to purchase long-term exit capacity. We would like more information on the substitution concept. At this stage, we note that the proposed treatment of substitution and investment as part of the enduring incentive schemes could have separate incentives, and this appears to be a sensible approach;
- the CIA would like to see further information on the proposed approach to the setting of UCAs for NTS offtake points and how these compare to the current exit capacity charges; and
- the CIA would like Ofgem to consider that the safety case for each DN will be very specific in the amount of exit capacity that a DN owner is required to purchase to meet its 1 in 20 obligation, and we therefore do not see how an incentive scheme can really improve efficient purchase of exit capacity.

Please contact the CIA if you would like to discuss any of the points raised above.

Kind regards,

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