



CHEMICAL INDUSTRIES
ASSOCIATION

24 May 2005

Sonia Brown
Ofgem
9 Millbank
London
SW1P 3GE

Kings Buildings
Smith Square
London SW1P 3JJ

Telephone: 020 7834 3399
Fax: 020 7834 4469

Direct phone: 020 7963 6718

Direct fax: 020 7834 8587

e-mail: brayh@cia.org.uk

www.cia.org.uk

**Gas Distribution Network Sales – Open letter to NGT, Transco and the DN companies
requesting report relating to the Authority’s decision on conditions subsequent**

Dear Sonia,

We write in response to the Open letter under point 9, “Whether there any other issues that you consider that the Authority should be aware of or take into account in reaching its decision on whether to allow share sale to proceed on 1 June 2005....”. The Chemical Industries Association (CIA) does not in principle object to the share sale, but we do wish to reiterate our belief that Transco’s and the Distribution Network’s licence condition to reform the offtake arrangements is not required as part of the process. We believe that the interim arrangements could be extended into the long term, post October 2008.

The CIA does not believe that the case for reform has been made and we note that the majority of benefits from the DN sales will be achieved through the separate price controls. At a recent Gas Customer Forum, it was made clear that our members who are directly connected to the National Transmission System would be in competition with DNOs and power stations who have expert knowledge of the gas market. Our members’ primary objective is to produce chemicals and we cannot stress enough that our members do not have spare resource to devote to auctions of flat and flexible capacity. If Ofgem seeks to approve the proposals, they will not be acting in the best interests of customers.

As stated in our response to Transco’s pricing discussion papers, from our contacts in IFIEC (International Federation of Industrial Energy Consumers) Europe, we are aware that the Dutch have implemented an exit regime whereby the supplier is responsible for booking the exit capacity for consumers. It has been reported that companies find it difficult to change supplier and the regime acts as a barrier to competition because suppliers don’t want to bid for sites where another supplier has already purchased the exit capacity. Furthermore, although the majority of our members have essentially flat profiles, they will be required to purchase a quantity of flow flexibility to ensure that they are not exposed to penal overrun charges. We believe that this is anti-competitive and does not give efficient signals regarding where flexibility is truly required.



CIA members are committed to Responsible Care

Finally, we ask that Ofgem and the Authority acts in the best interest of customers and remove the licence condition to reform the offtake arrangements.

Kind regards,

Helen Bray
Utilities Policy Manager
Chemical Industries Association
Tel: 020 7963 6718