



CHEMICAL INDUSTRIES
ASSOCIATION

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UNIFORM NETWORK CODE PROPOSAL 0006

Sonia

The CIA welcomes the opportunity to respond to Ofgem's open letter on energywatch's data transparency modification proposal 0006 "3rd Party Proposal: Publication of Near Real Time Data at UK sub-terminals". The CIA believes that this is an important proposal that will greatly benefit the operation of the gas market and will go some way to address the issue of asymmetrical access to information. We would however note that an important aspect of any information release proposal and we would like to be able to discuss our requirements with National Grid Gas. In particular the CIA is of the view that:

- Member companies have found the value of the DTI phase III information useful when forming their purchasing strategies and gaining a greater understanding of the functioning of the supply position within the day. However, the CIA is aware of numerous occasions when National Grid Gas's (NGG's) information system has failed and the information was unavailable. Furthermore, this information is released via NGG hourly and so can be up to 1 hour and 15 minutes after real-time, and so consumers remain "behind" certain parts of the market.
- It should also be noted that the usefulness of this information is limited as it only provides an aggregated overview, and so it is hard to identify where a step change in supply has occurred. Member companies have also observed that the usefulness of this information could be improved by the format that it is presented in, consumers require graphical representation so that the current market conditions can be easily determined and then if required data can be extracted for further investigation.
- For consumers that have the option of purchasing their gas on a day-ahead or within day basis the benefit of this information would be felt through more informed purchasing decisions, with these sites also being able to use the information to decide whether to purchase the gas or whether to provide a demand side response to the market. Member companies have commented that the provision of disaggregated real time information will allow them to identify the factors that are driving the market, rather than having to interpret the data that is currently available and guessing at the driving forces behind it, which will allow them to make purchasing decisions based on actual market fundamentals.
- The value of this modification proposal to chemical companies is delivered through more informed purchasing decisions based on market fundamentals. It is therefore very hard to quantify what the actual value of this information will be to chemical companies, and any figures will therefore be arbitrary and open to discussion. The CIA has therefore attempted to produce a range of savings that this modification would deliver based on our discussions with member companies. According to the Digest of United Kingdom Energy Statistics (DUKES) the Chemical Industry consumed 1.7 billion therms of natural gas in 2004 (including for feedstock use). Following discussions with member companies the CIA believes that members should see a benefit from more informed purchasing decisions in the region of 0.5p/therm to 1p/therm. We therefore believe that the value of this proposal to the chemical sector is in the region of £8.5 million to £17 million per annum.

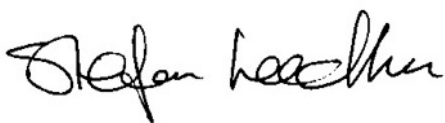


CIA members are committed to Responsible Care

- Any savings to consumers will only be recognised if the data that is to be released is presented in a consumer friendly format that is easy to extract and manipulate. The CIA would observe that the systems to achieve this already exist and are in operation, and would look to the BM Reports web page as an example of best practice in the public domain.
- Due to the distance between the beach and the majority of offshore fields, a field failure would not instantly be registered at the beach. For example the CIA believes that if the Britannia field were to collapse this would not be registered at the beach until 12 hours after the failure. This should protect the concerned producers from becoming “distressed” purchasers. However the CIA would further note that a producer would only be placed in “distress” if the market were aware of its commercial contracts or nominations by sub-terminal for the day ahead. The CIA would further observe that in the majority of financial markets acting on information that is not available to the rest of the market, that when released will impact on prices, is classified as insider dealing which is heavily regulated against.
- During the development of the Gas Balancing Alert (GBA) by the Demand Side Working Group Sub-Group (DSWG SG) one of the largest obstacles to the development of a simple transparent trigger was the lack of regulatory requirements regarding offshore production information. This lack of information and regulatory requirements impacts all parts of the gas market. The CIA therefore believes that the implementation of this proposal would represent an important first step to ensuring that the required offshore information is released to the market that will help to develop a more economically efficient competitive market.
- The entire market and not just large industrial consumers will feel the benefits of this proposal. Economic principles state that a central requirement of a perfectly competitive market is an equal access to relevant information on a timely basis. Whilst the CIA would note that a perfectly competitive market is a theoretical model, we would observe that the majority of regulations applied to financial markets are attempting to mimic the operation of a perfectly competitive market. The CIA would also note that economic theory states that markets set prices based upon the information that is available to them. By increasing the level of information to the market this will allow prices to be set based on actual supply and demand fundamentals rather than market rumour and ensure the most economic and efficient allocation of a scarce resource.

If you have any comments or queries about any of the points raised in this response please contact me on 020 7963 6736.

Regards



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