

Ciba



cc Jo Witters
Hannah Cook

11th November 2005

Sonia Brown
Direct Markets
Ofgem
9 Millbank
LONDON SW1P 3GE

Dear Ms Brown,

UNIFORM NETWORK CODE PROPOSAL 006

Thank you for your letter of 24th October, seeking views and information on the above proposal.

Although we are not what would be traditionally recognised as an energy-intensive user, utility costs remain very significant for us.

Our UK sites primarily use gas and electricity as energy sources in our manufacturing processes. In increasingly price sensitive markets, where intense competition inhibits our ability to pass on increased costs, rises in energy prices have a significant impact on our margins. For example, energy costs as a proportion of production costs at our Paisley site in 2005 will be 20%, double the 2000 figure. The greatest impact on our energy costs is gas and we anticipate further increases of 30% in 2006.

As a major factor for us at the moment is remaining competitive on costs we can ill afford the increasing amount of resource required in energy purchasing. This is not our core competence.

We require good, reliable, simple, up-to-date information which allows us to make decisions with confidence. We are continually frustrated by reports and rumours speculating on reasons for significant price increases after the event. Only this Wednesday 9th November we received reports that gas winter prices were increasing by 7 pence per therm and when we investigated through our suppliers and other sources we received *"word on the markets is that the gains have been driven by speculative purchasing, compounded by stop-loss limits being breached (mainly financial speculators, but also some consumers), driving more demand and higher prices. If this were the case, it would not be unexpected for prices to fall just as rapidly, probably to settle just above the start of the rise. Prices have stabilised since mid-morning, but recently trading has been busiest in the afternoon, and the next few hours may give some guidance as to the immediate direction."*

Hawkhead Road
Paisley PA2 7BG
Scotland

Tel. 44 (0)141 887 1144
Fax 44 (0)141 840 2283
www.cibasc.com

Value beyond chemistry

As you will understand, such confusing market analysis is not a good basis for making informed decisions on gas purchasing.

A study of the after-the-event aggregated information at the time was insufficient to allow purchasing decisions to be made with authority or confidence.

Up-to-date information disaggregated to show the source of any specific network issues would have given a level of transparency more likely to result in better judged decisions. We assume, of course, that such information would be in a form conducive to easy and prompt interpretation.

In essence the value of this modification proposal to Ciba Specialty Chemicals is delivered through more informed purchasing decisions based on market fundamentals. It is very hard to quantify what the actual value of this information will be to us, and any figures will therefore be arbitrary and open to discussion. However, a reduction of 0.5 pence per therm gained through improved and more timely information would save us £100k per annum. We believe that much of the information requested through the proposal is already available to other parties, therefore it is difficult to see how the costs associated with implementing the proposal would not be offset by benefits of the order of 0.5p / therm.

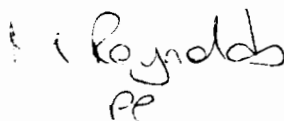
Any savings will only be realised if the data that is to be released is presented in a consumer friendly format that is easy to extract and manipulate. To re-emphasise the point; our business is specialty chemicals, not gas trading. Systems to achieve this already exist and are in operation, and we look to the BM Reports web page as an example of best practice in the public domain.

In terms of the current National Grid website it requires to be more user-friendly, easy to interrogate, with an improved response time and improved availability. Again we would refer you to the existing BM Reports web page as an example.

In summary we will only have confidence in market information when we see this in real time. As a fundamental principle, we believe that markets operate most efficiently when all parties have equal access to the best available information. Lack of confidence in the gas market operation is a major concern right now. We believe this to be the case with most industrial gas consumers.

We support any moves to provide greater transparency that will give us greater confidence. We believe additional costs will be more than offset by improvements in market efficiency.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'N. Sambells', with a small 'PS' written below it.

Norman Sambells
Engineering Services Manager