



CHEMICAL INDUSTRIES
ASSOCIATION

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PUBLICATION OF NEAR REAL TIME DATA

Dear Hannah

The CIA welcomes the opportunity to respond to the questions posed in your letter of 10 January 2006 and would like to take this opportunity to express our continued support for the implementation of this modification proposal. The CIA represents a wide range of gas consumers who implement numerous purchasing strategies with varying degrees of complexity. We note that until this modification is implemented our members will continue to have to respond to the market and that this market will fail to ensure the economic and efficient distribution of resources as the required information is unavailable. The CIA would observe that it is up to the market as to how this information is used and interpreted, and up to the Authority to decide whether the market responding to information results in a more economic and efficient allocation of resources than the market responding to rumour and hearsay. In response to the specific questions raised in your letter the CIA would like to make the following observations:

1. *How your members may have behaved in the above examples, with current information. In particular, how they may have reacted to the drop in line pack and its coincidence with an increase in the price of gas.*

The CIA represents a diverse range of energy consumers of varying size, requirements and flexibility, and so it is very hard to provide a single answer for the above question for the whole of the chemical industry. The CIA would note that currently when members see a drop in linepack accompanied by an increase in price on a particular day, it is impossible to identify what has caused this. Some members may turn to the market in order to identify the cause of this and so respond to rumour, whilst others may turn to their supplier to seek their advice. In both cases chemical sites are responding to the market and not participating in it, and have to wait two days for National Grid's NTS End of Day flow reports in an attempt to identify what has driven the market. The CIA would also note that many members note that a jump in line pack and price within day has impacts on all of the forward curves, and so this impacts on all consumers.

2. *How the behaviour of your members may have changed in the examples outlined above if near to real time sub-terminal flow data was available?*



CIA members are committed to Responsible Care

The CIA would note that if our members were privy to near to real time sub-terminal information then on observing a drop in linepack accompanied by an increase in price they would attempt to identify what has caused the changes. By having this information they would be able to identify whether a drop in linepack has been induced by the failure of sub-terminal or by a combined reduction in supply from numerous operators. They would be able to identify whether this supply reduction was being met from an alternative offshore supply route, or from a storage facility. In short they would be able to identify what was driving the market. How members would respond to this information would depend on the requirements of an individual company, some may reduce consumption and so provide an effective demand side response, whilst others may change their purchasing strategy, moving from a day ahead price to a weekly or monthly strategy.

3. *What benefits you would envisage that your members may achieve as a result of the release of near to real time sub-terminal data in the examples above?*

The CIA believes that the benefit of this proposal will be felt not only by all of our members, regardless of size and purchasing strategy, but also by the market as a whole. Numerous members of various sizes have observed that by having access to this information they will be able to participate as part of the market rather than responding to it as distressed buyers. This will mean more informed purchasing decisions based on market fundamentals rather than relying on rumour or supplier recommendation, for the chemical industry this could represent savings on the cost of gas, whilst for the market as a whole this could result in a demand side response when required. The CIA would however note that these actions are based on our current understanding of the market and members' purchasing decisions.

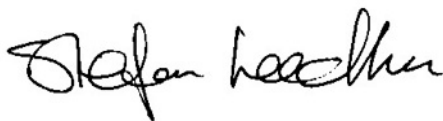
We firmly believe that as this information is published member companies will learn how to interpret this data and respond to it, whilst developing more advanced and complex purchasing strategies based on this information.

4. *What costs you would envisage that you members may incur as a result of the release of near to real time sub-terminal data in examples 1 and 2 above?*

The CIA is unable to identify any additional costs associated with the implementation of this modification. We believe that market volatility as a result of information is preferential to market volatility based on rumour and so should be viewed as a short-term risk rather than a cost. We would also note that any volatility is likely to be a short-term issue as the market learns to interpret the information available to it, and is a function of any developing market.

I hope that this answers the questions you raised and if you have any further questions please contact me

Regards



Stefan Leedham, Business Analyst