



CHEMICAL INDUSTRIES ASSOCIATION

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RESPONSE TO CONSULTATION

Dear Robert

The CIA welcomes the opportunity to respond to this second consultation on the Transmission Price Control Review. The CIA would like to make the following observations:

Price Control Framework:

- The CIA recognises the benefits of a “User Commitment Model” for price control designs, where allowances for additional investment are dependent on commitments by network users and where there are risk-sharing arrangements. However the CIA would note that different network users will have different planning horizons, and so users should not be discriminated against because of this.
- The CIA believes that the allocation of risk between network users is both a complex and sensitive matter, with important implications. The CIA would therefore note that in a competitive market investment would be undertaken by an organisation if the returns expected from that investment were adequate enough compensation for the level of risk involved. The Transmission Companies involved in this TPCR should therefore either have their allowed returns on capital employed based upon the level of risk involved in the operation of their business, or should have risk attributed to them based on the level of return on capital employed. Given that the business plan of the transmission companies is to “transmit” energy, it should be expected that part of this business plan will include undertaking the investment necessary to achieve this. When undertaking an investment therefore it should be expected that the majority of the risk will be borne by the transmission companies, as this is their business, with some risk sharing with the counterparty that will benefit from the investment. However the counterparties to this investment should not be discriminated against because of their different planning timescales. The CIA therefore believes that the majority of risk should be borne by the transmission companies, with a varying proportion being born by the differing users depending on their requirements and planning timetables.

Enduring Offtake Arrangements

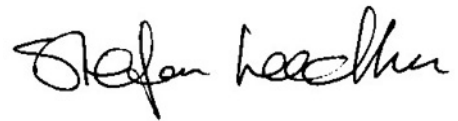
- We are working with Ofgem and National Grid on the issue of the enduring offtake arrangements but are unable to comment on the appropriate way forward without further detail regarding the different approaches, i.e. nodal, zonal or global. We request that any approach adopted does not add undue complexity for our members.



CIA members are committed to Responsible Care

We look forward to providing more comments on the next consultation.

Kind regards,

A handwritten signature in black ink that reads "Stefan Leedham". The signature is written in a cursive style with a large initial 'S' and a long, sweeping underline.

Stefan Leedham,
Business Analyst