



CHEMICAL INDUSTRIES ASSOCIATION

15 March 2006

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UNC MODIFICATION PROPOSAL 0006

Sonia

The CIA welcomes the opportunity to respond to this important consultation, and would like to take this opportunity to express our strong support for its implementation. The CIA conforms to economic theory in believing that an essential element of a competitive market is equal and timely access to market information by all participants and we firmly believe that this modification is a step towards achieving this. The CIA would further note that this winter has been a prime example of a market that has reacted to fears and rumours over security of supply, as the information has been unavailable on supply and demand fundamentals. The CIA would further observe that the release of the physical and forecast flows into the UK under the DTI initiative represents an improvement over previous information, however there have been real reliability concerns over the provision of this information that is never released on the hour, and that has failed entirely at times when it has been needed most. The CIA therefore welcomes the additional resilience being built into the provision of this information by National Grid, and would note that the incremental benefit of having an additional, reliable, data source when the physical and forecast flows into the NTS fail to publish would add further value to the implementation of this proposal. In response to Ofgem's particular questions the CIA would make the following observations:

1. Has Ofgem undertaken the appropriate analysis?

The CIA believes that Ofgem has undertaken a full and complete analysis of the proposal and that it is therefore appropriate.

2. Is there any additional analysis that would have been appropriate?

We believe that this analysis could only have been improved upon by temporarily releasing the information to the market and analysing the effect that it had, but recognise that this would not have been a practical solution given the costs involved. The CIA would also question whether it may have been desirable to analyse the benefit of this information in relation to instances when National Grid have failed to publish the physical and forecast flows onto the NTS reports?

Whilst the reliability of these reports have improved over the winter, they have a tendency to fail when they are needed most, and so this type of analysis would have revealed the full benefit of this proposal.

3. Do you think that the assumptions used in the modelling were correct?

The CIA is unaware of any reasons to believe that Ofgem's assumptions were incorrect.

4. Are the benefits obtained from the modelling analysis reasonable?

The CIA believes that the benefits identified by Ofgem are reasonable and agree with Ofgem that the benefits of the modelling are likely to be in the higher region of the figures published.

The CIA would note that this aligns with our current assessment of the benefit of this proposal to



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the larger consumers, based on our current understanding of the market. The CIA however also believes that all market participants will feel the benefit of this proposal as they learn to analyse and react to this new information. It is therefore likely that the long-term benefits of this proposal are greater than those identified in this analysis.

5. Was there value in carrying out the January consultation?

The CIA believes that there was value in the January consultation. We believe that it allowed all parties to help inform Ofgem exactly what the impact of this modification would be on them, and how they act in the current market based on the information available to them. The CIA would further note that this consultation also allowed participants to reflect how they coped with the first “neck” winter with the information that was available.

6. Are NGG NTS’ cost estimates reasonable?

The CIA is unable to comment exactly what the cost of the implementation of this proposal would be. However we would note that experience from this winter has shown that reliability and presentation are two essential criteria in funding the release of this information. The CIA therefore welcomes the additional resilience being built into the presentation of this information, and would encourage National Grid to build on the experience gained from the Daily Summary Web Page in providing one that is consumer friendly.

7. Has Ofgem reached the correct conclusions regarding NGG NTS’ cost estimates?

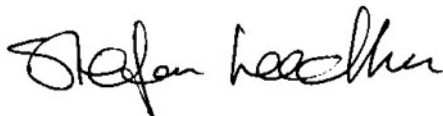
As previously stated the CIA believes that a defining factor on the benefits to be gained from this information release is the manner in which the information is presented. The CIA would therefore urge Ofgem and National Grid to ensure that consumer friendliness and reliability do not play second fiddle to cost. As previously noted a data source that fails when it is needed most is useless. The CIA therefore believes that NGG NTS’ costs would be acceptable if they delivered a consumer friendly and reliable web page.

8. Do you agree with Ofgem’s overall conclusions regarding the costs, benefits and associated risks?

The CIA fully agrees and supports Ofgem’s overall conclusions regarding the benefits and associated risks. We would however note that due to the October 2006 implementation date National Grid has had to undertake some preliminary work to ensure that their IT systems will be ready for such an implementation date. The CIA would note that this work will involve some costs attributable to the £1.4m implementation costs identified by National Grid, and that modern investment appraisal would view these costs as sunk costs as they are unrecoverable regardless of whether Ofgem approves the modification or not. The £1.4m investment costs should therefore be reduced to reflect this, further enhancing the cost/benefit analysis of the proposal. The CIA does however recognise that this would be resource intensive, but notes that the overall benefits are therefore greater than those identified by Ofgem.

We hope you find these comments useful, and if you require any additional information please contact me.

Regards

A handwritten signature in black ink, appearing to read 'Stefan Leedham', written in a cursive style.

Stefan Leedham, Business Analyst.