



**CHEMICAL INDUSTRIES
ASSOCIATION**

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**Initial thoughts on the reform of interruption arrangements
on gas distribution networks**

The CIA is opposed to the changes proposed to the current Gas Distribution Network (GDN) interruption regime. We believe that the current arrangements enhance security of supply and as the GB gas market has not experienced severe cold weather for a number of years we believe that the current arrangements should stay in place. Chemical sites understand the consequences of being interruptible, and do not take this decision lightly. On a similar, but different issue, we have been working with Ofgem through the Demand Side Working Group to ensure that our members understand the current market and the fact that chemical sites are being encouraged to be flexible and switch to back-up fuel or reduce production in order to protect domestic consumers. We note that demand side response and gas distribution network interruption cover two different issues, one a commodity and the other a capacity issue, but for chemical sites these two issues overlap.

Members have reported that there are too many unknowns with the current gas market, and until there is more stability this proposal can't be clearly evaluated. We believe that simple gas distribution networks working well may be more beneficial than marginal market efficiency. Such proposals are in any case likely to add to costs (time and resource) and will reinforce the view of overseas investors that the GB energy market is unreliable and complex to operate in, as 85% of our members have headquarters outside of the UK, this could have negative consequences for future investment and production decisions.

Q1: Has Ofgem identified the key weaknesses of the current interruption arrangements for GDNs?

We note that Ofgem considers that GDNs have a lack of control and that the choice as to whether to be firm or interruptible is made by the consumer. We would like to stress that CIA members will only consider being interruptible if they can curtail their gas requirements through either using alternative fuels or reducing production. Sites pay particular attention to the Interruptible Firm Allowance and make sure that they only consume the volume of gas they are allowed to during periods of interruption, and may optimise the booking of this allowance. No chemical site would become interruptible without considering the consequences, there are environmental and safety considerations to be assessed.

Ofgem believes that too much interruptible capacity is made available and that firm consumers may be paying more due to this. The CIA as mentioned above does not believe that the system has endured a 1 in 20 peak day and we require evidence that there is too much interruption being made available.

GDNs appear to operate under the current regime by assuming that a site will retain its current characteristics, for instance, prevailing rights. The CIA request evidence that sites are switching from interruptible to firm or vice-versa, and that GDNs require more investment signals.

CIA notes that the current regime doesn't include signals about customers' costs of being interrupted, and that there is a lack of product flexibility. However, in any regime there is trade off between simplicity and complexity, and under this regime our members prefer simplicity.



CIA members are committed to Responsible Care

Q2: To what extent do interested parties consider the current arrangements have significant strengths, and if so, what are these strengths?

The current arrangements are well understood by the market and consumers. Consumers understand that they are offering a service that can be used for a number of situations, for example, testing, constraints, and emergency interruption.

Q3: Do you agree with Ofgem's key principles for reform.

We note that GDNs may prefer the freedom to contract and product flexibility, and we believe that consumers should be given the choice. This may be a preferred option but makes the procurement of energy even more complicated.

We believe that firm customers, such as households, are paying for the service offered by interruptible sites. As mentioned previously, we have not experienced a cold winter and are not sure how much self-interruption or interruption due to constraints could be required from interruptible gas consumers.

We agree that efficient investment signals would be nice to have, but doubt this proposal will actually deliver significant efficiency gains. The CIA would like to see evidence of how much benefit long-term signals would deliver, as we are not convinced that competition will deliver a great amount of reduction in investment costs.

We are unsure how these proposed arrangements would operate for new entrants with less than three years notice. Would they be allowed to go interruptible if they haven't entered the tender process, or do they have to go firm and wait for three years if there isn't enough capacity available, so that the GDN can reinforce the system?

We also have concerns about contractual complexity that this proposal could add if a site has to contract with one supplier for capacity and one supplier for commodity. Could capacity rights be easily transferred between shippers?

Q4: To what extent do respondents consider that the model so far developed by the GDNs meets Ofgem's principles for reform?

The document only includes high-level concepts and we are not sure that Ofgem's principles for reform are robust -see answer to Q3.

Q5: Had Ofgem identified all the key interactions with the enduring offtake reforms for the NTS?

The CIA would like to understand more regarding the 1 in 20 network planning standard for GDNs, and also how they plan under the current regime. The CIA is unsure that the case for change has been made.

Q6: What is the appropriate form of an incentive on GDNs for the purchasing of interruption?

We do not support the arrangements as proposed and would require more information before making a comment on the appropriate form. We note that Ofgem are probably best placed to determine incentives.

Q7: Do respondents support the continuation of similar incentives to the transitional incentive for GDNs purchasing offtake capacity?

We believe that Ofgem is best place to determine appropriate incentives and we do not have any comments to add at this stage.

At the moment, the CIA does not support the proposed changes to the gas distribution network interruption regime. We require evidence that the current arrangements do not work, and that the proposed arrangements will deliver benefits. We have no comments to make on the Impact Assessment because without further details of how the proposals would work in practice it is too difficult to try and determine costs. If you would like to discuss any of the above issues, please contact me.

Kind regards,



Helen Bray
Head of Competitiveness and Utilities