

Indra Thillainathan
Gas Distribution
Ofgem
9 Millbank
London
SW1P 3GE

21st July 2006

Dear Ms Thillainathan

Re: New entry arrangements for connecting to the gas distribution network – The interim arrangements for Holford 165 storage facility

INEOS Enterprises Limited (“INEOS”) welcomes the opportunity to comment on Ofgem’s proposals regarding the interim arrangements for the Holford 165 storage facility.

As you are aware INEOS is the owner of the facility and is expecting to commence commercial operation in October 2006. Previously, the facility had been leased to National Grid to satisfy local diurnal requirements and as a result, access to the NBP for trading purposes was not required.

In order to operate the facility in a commercial manner INEOS, or any other Holford 165 storage capacity holder, needs to ensure that gas delivered into the DN is recognised at the NTS. Currently, and for existing embedded entry points, this pre-requisite is satisfied through the creation of “virtual” entry points meaning that gas which flows into the DN is deemed to have flowed into the NTS. As early as October 2005, INEOS made representations to National Grid NTS that it wished to pursue the creation of a NTS Entry Point at Holford 165 and as such, submitted a formal request in December 2005.

INEOS understands that following the Ofgem consultation in May 2005 and in accordance with the Long Term arrangements proposals as detailed in this consultation, Ofgem is eager to introduce more appropriate DN entry arrangements. INEOS will comment on the Long Term proposals separately, but understands that in order to accommodate them or any other long-term arrangements, in a timely manner, it is reasonable to introduce interim entry arrangements at Holford 165.

INEOS has accepted this principle in good faith, but suggests that the interim arrangements should fulfil the following criteria:

1. Easy to implement and must not, under any circumstances imperil the target operation date of October 2006;
2. Low cost to all parties (as the arrangements are due to expire in October 2007);
3. Facilitate the release of maximum available capacity. In order for the facility to operate effectively and provide additional security of supply, flows out of the facility should not be artificially restricted;
4. Not undermine the development of the long-term arrangements. The long-term arrangements are subject to an alternative consultation and development timetable and as such the final arrangements are yet to be determined. The interim arrangements should operate on a stand alone basis and not pre-empt the outcome of the long-term arrangements;
5. Non-discriminatory and not inferior/superior to the arrangements currently in place for existing embedded entry points i.e. access to physical capacity should be consistent for all relevant entry points

Ofgem has recommended that of the options put forward, Option 1 is the most suitable. In principle, INEOS supports this approach as it can be implemented reasonably quickly and certainly within the timeframe stated above. INEOS does, however, have a concern over the capacity likely to be made available by NG NTS in collaboration with NG DN.

The following table attempts to assess Option 1 against the criteria we have identified:

Criterion	Meets Criterion	Comments
1. Easy to implement, within timescales...	Yes	Simplistic and fairly straightforward to implement. Requires Licence change and UNC mods.
2. Low cost...	Yes	Simplistic and easy to operate. NG DN and NG NTS need to develop operational arrangements for the determination of capacity volumes and interruption. INEOS fully expects that, consistent with the arrangements for other NTS entry points, interruptible capacity at Holford 165 will not attract a capacity charge.
3. Maximise release of capacity	Possibly	Without a firm baseline, there is no requirement for NG NTS to release capacity. No buy-back exposure may lead to "unnecessary" interruption

4. Will not undermine long-term arrangements	Yes	Stand alone arrangements which do not “second guess” the outcome of the Long Term consultation process
5. Non-discriminatory	Possibly	As with criterion 3, the lack of a baseline in theory could lead to the provision of an inferior service

In summary

We are supportive of Option 1, as it is consistent with the assessment criteria we have identified. Our concerns outlined in the comments on the 3rd and 5th criteria do require further consideration and we seek comfort from Ofgem that their expectation of the interruptible service to be provided by NG NTS will permit access to the maximum capacity available at the DN entry point.

We are grateful for the work Ofgem has already done and believe that the solution it has proposed will meet our aspirations for the coming Gas Year.

We will respond to the second part of the consultation at a later date.

If you wish to discuss this response, or any other aspects of the consultation document then please contact myself on 01928 516562, or Nick Wye on 01295 750099.

Yours sincerely

D J Dykes

Business Development Manager
INEOS Enterprises Limited