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One year price control - Gas Distribution Price Control Review

The CIA welcomes the opportunity to comment on the one-year Gas Distribution Price Control Review (GDPCR). We note that the Gas Distribution Networks (GDNs) have spent considerably more than was anticipated in the last price control review. We are still concerned that our members will be exposed to increase costs due to pensions and shrinkage, and that our members will not see any benefits from the Gas Distribution Network sales and ask Ofgem to scrutinise the information received. Security of supply is vital to chemical sites and GDNs need the appropriate allowances to invest. However, we are concerned that GDNs did not alert Ofgem to their over-spend sooner.

We note that there are many discussions regarding the cost of capital and that it varies between sectors, from gas to electricity to water, dependent on risk. We believe the approach for 2007-08 gas distribution price control appears appropriate.

Uniform Network Code Modification 0090 would expose GDNs to interruption prices on a locational basis, and if GDNs are expected to manage this risk, then CIA would expect to them to be able to manage the gas price risk.

If you have any further questions, please contact me.

Kind regards,

Helen Bray

Question 2: Is Ofgem's proposed approach to setting pensions allowance for 2007-08 appropriate?

CIA's members believe that it is inappropriate for the price control to allow for recovery of pension fund deficits in the manner described. In the private sector (and many of the customers of GDNs are private sector companies or employees of private sector companies) there is no automatic right to funds to repay deficits. Private companies may be forced to take cash out of profits and the same should apply to GDNs. In other words GDNs should not be given an allowance for any pension deficit but should use part of their declared profits to pay for deficits. Alternatively members of their pension funds will be forced to accept reduced benefits as happens from time to time in the private sector.

Question 3: Is Ofgem's assessment of the costs and benefits associated with the three options for setting shrinkage allowances, as set out in the impact assessment, reasonable?



CIA members are committed to Responsible Care

The costs of shrinkage gas form part of the main operating expenditure allowance, which gives GDNs a strong incentive to reduce costs by reducing shrinkage volumes. CIA believes that GDNs should be able to hedge their price risk, and we agree with Ofgem that there should not be a reopening of the existing price control arrangements. The GDNs purchased their networks as on the basis that prices risk would lie with the GDNs until March 2007. Any changes to this will result in increased costs to consumers who are already being hit by high and volatile gas prices. We have no comments to make on the three options for setting shrinkage allowances, as we do not believe that the case for change has been made.