Response to National Grid's *Winter 2007/2008 Preliminary Consultation Report*

INEOS ChlorVinyls Limited

Introduction

We welcome the opportunity to respond to this Preliminary Consultation Report. We do acknowledge that the process adopted last year has been retained and consider this continues to be an appropriate process.

Our response is set out as a series of general remarks and responses in Appendix 1 and responses (where appropriate) to the specific questions in Appendix 2.

We recognise that with this being still only the initial consultation we would expect that at the next stage there may be some greater clarity which may enable a better view of supply to be taken. Further, we would consider that these are very much initial comments which we will develop as the consultation process develops.

The winter just past (2006/2007) has shown once again the very significant influence of gas imports on the UK supply/demand balance (and therefore the UK NBP gas market). With import dependency expected to increase, this influence will of course continue to increase and as a result we believe there is an ever increasing need for the Winter Outlook process to consider factors outside the UK and/or for a European Winter Outlook process to be encouraged and developed.

Further, it is apparent that market issues are no longer confined to winter. In particular the increasing demand for air conditioning is demonstrably impacting on the electricity market in summer and the concept of a "Summer Outlook" process should also be considered.

As noted above our general remarks are set out in Appendix 1.

Our responses to specific questions are set out in Appendix 2.

If you have any questions please do not hesitate to call me.

Andrew C Mackenzie

Gas and Water Purchasing Manager

Appendix 1 – General Remarks

Demand Side Response

We note that Demand Side Response, out-with the power generation sector, does not feature prominently in the document this year. This is welcome, although is probably a general reflection of the improved level of supply for the coming winter.

Weather

Weather data, and views of normal, cold and warm temperature patterns, is an area which we would consider to be somewhat unclear.

In particular, we note that there are a range of different data sets published routinely ahead of the seasons showing the Seasonal Normal, warm and cold temperature ranges. However, this data, then appears to be inconsistent with Normal Temperature figures published on an ongoing daily basis – through for example *Miscellaneous System Information* data.

Further, we think (although are not certain) that the temperature data published to show warm and cold conditions may be misleading by showing data sets which are statistically extremely unlikely to happen because they show extremes on a weekly basis rather than the average of extremes on a seasonal basis.

We believe that consideration should be given to publication of a simplified range of temperature assumptions. We would suggest a format as set out in the table below.

Month	October	November	December	January	February	March
Average Temparuture Normal Winter						
Average Temperature 1:10 Cold Winter						
Average Temperature 1:20 Cold Winter						
Average Temperature 1:10 Warm Winter						
Average Temperature 1:20 Warm Winter						

As an illustration we note the case of April 07. It has been very widely reported that April 07 was the warmest April on record. Using NG's own published temperature data we actually observe that April 07 was actually on average very similar to two of the previous three Aprils.

Norwegian Production/European Supply

Over the last winter much comment has focussed on UK gas supplies being healthy due to reduced demand in Europe – although actually UK gas demand was quite high due to increased demand for power generation. This highlights the importance of the European Supply and Demand Balance – and a huge lack of knowledge in this area remains.

We suggest that there is a need for greater European market transparency and encourage NG to push for more information and European Outlook process.

Page 15 – Para 35 – We note that "declining" should read "increasing in this paragraph.

Appendix 2 – Responses to Specific Questions

Responses to specific questions are shown below. We have omitted questions where we have no comment to make.

Question 1

We consider the total volume looks reasonable at this stage.

Question 2

We struggle to comment on this – and this is a reflection of the lack of market transparency in the European market beyond the UK. Given the additional consumption of gas in the UK for power generation (as gas was more competitive than coal and availability of the nuclear fleet was low) we think that possibly even in a more "normal" winter supplies may have been less tight than may have been anticipated ahead of winter.

Question 3

As above.

Question 4

As above.

Question 6

It is not obvious that IUK operated more like a storage facility. Price drivers do not obviously suggest this.

Question 10

We would consider that under conditions of increased demand it is actually likely that storage cycling would be at least, if not more prominent. There is certainly evidence of storage recycling during the winter 05/06 and although we have not done an analysis of this, we would estimate that recycling was probably greater during that period than in the winter just past.

Question 11

We would expect that domestic prices still have further to fall. However, while forward winter and summer wholesale prices are significantly lower than their peak levels, they do remain at levels well above those seen historically and are at least 50% higher than around 4 years ago. Further, with Phase 2 of the EUETS starting in 2008, we can already see the impact of higher carbon prices leading to higher electricity prices.

Question 12

Recognising our comments in question 11, we do expect that domestic prices will stay at historically high levels that may continue to suppress demand. In addition, the ever increasing awareness of climate change issues (now very much a mainstream media issue) may continue to impact on domestic consumer behaviour – at least while this continues to have high profile media attention.

Question 13

It is far from certain. This will be very sensitive to the level of Norwegian production, LNG imports, weather (influencing demand) and world coal, oil and carbon prices. This is not a comprehensive list.

Question 14

We consider this to be a particularly important question. We would support the principle of using an *unrestricted (traditional demand) profile.* We believe that it is essential that the WOR process produces numbers on a consistent basis and then let market participants make their own assumptions. Further, we consider that NG systems should excel at producing LDZ/Domestic demand profiles and it is in this area that NG should continue to give a view of expected demand.

Question 20

We consider that in a "normal" winter IUK will operate as a marginal source of supply and that availability of gas will increase as winter progresses. Concerns will remain in the event of a cold winter as European markets continue to liberalise at only a very slow pace.

Question 23

This will again depend on weather. Even in a cold winter, we expect that there will be mild periods when there will be an ability to recycle (refill) storage – although the demand curve shown for a mild winter (as published on the Daily Summary Report) suggests that this would be difficult to achieve in a very cold winter.

Question 24

Yes – it is plausible subject to Ormen Lange commissioning as expected.

Question 25

We would expect that weather corrected generation was lower reflecting permanent demand destruction as a result of high prices over recent winters. It is important to note that while spot prices in winter were relatively low, forward prices for the winter remained extremely high until very close to delivery.