



**CHEMICAL INDUSTRIES**  
ASSOCIATION

**Draft Modification Report: 3<sup>rd</sup> Party Proposal:  
Publication of Near Real Time Data at UK Sub-Terminals  
Modification Reference Number: 0727**

***Response by the Chemical Industries Association***

The Chemical Industries Association welcomes the opportunity to respond to this proposal and would like to take this opportunity to fully support its implementation. We believe that this modification will aid transparency in a market that has an asymmetrical access to information. Furthermore we are positive that this increased transparency will benefit both customers and market participants, as it will increase competition, efficiency, price signals and the more economic and efficient use of the NTS. The CIA firmly believes that:

**General Points**

- The lack of transparency and an asymmetric access to information distorts this market. This modification will help to overcome this distortion and should allow the market to set prices based on fundamentals.
- Basic economic theory states that a perfect market requires timely, unilateral access to relevant information in order to set prices based on market fundamentals. Whilst it may not be possible to achieve a perfect market, any changes which move closer to this position should be encouraged.
- Economic theory also clearly states that the greater the degree of information, the greater the level of competition, and so the more efficiently the market operates. This efficiency will be seen by all participants through reflective prices, and more accurate price signals that will inform the producers which assets should be utilised. In short greater transparency aids the economic use of limited resources.
- Limited access to market information could also act as a barrier to entry. By lowering this barrier it is likely that more competition would occur that would, again, increase efficiency.
- Finally energywatch's cost benefit analysis clearly shows that the benefits of this modification greatly outweigh the costs. The CIA would also like to draw attention to the fact that the annual benefits of this modification are of similar magnitude to the net benefit of the distribution network sale. However unlike the distribution network sales these benefits are likely to occur in the near future. Given that DN sales are occurring the CIA is surprised that any modification that would offer such a great benefit to the consumers would be opposed.

**Response to Issues Raised by Transco:**

- Transco is required by condition 4e of its Gas Transporters Licence to comply with the information requirements of the network code, and so would not be liable under section 105 of the

Utilities Act. As this proposal is a modification to the network code, there should be no argument about its legality.

- Furthermore Transco's arguments regarding the contractual implications of this modification in light of its Confidentiality Agreements and any Network Entry Agreements can also be questioned, given that the majority of contracts can be renegotiated.
- Whilst Ofgem does acknowledge the concerns and issues associated with this proposal in its *gas production information disclosure assessment* it also clearly states that under the current system there is an asymmetrical access to information that could facilitate insider trading. "Shippers with producer affiliates may be able to trade on the basis of this information well ahead of other participants". Any data release that would decrease this possibility should be actively encouraged.
- Transco's concerns over the metering issues appear to fall into two categories, who owns the data and its confidentiality implications.
  - a. Regarding data ownership, it is proposed that Transco would be using its own meters to measure gas flowing through its own pipes, relates to their business and so it would be reasonable to suggest that Transco was the owner of this data.
  - b. With regard to confidentiality implications, it is quite clear from the CIA's point of view that this data will inform participants of nothing more than the actual gas flow, it will not explicitly reveal any individual operators position. Transco also seems to suggest that this data is too complex for participants to analyse correctly, further suggesting that an individual company's position will be protected.
- Transco also expresses concerns over the accuracy of meters that may be used in that they may present misleading information. However, with the current situation the market relies on rumour and out of date data to form decisions. This is clearly an undesirable situation and so any data release system that combats this should be actively pursued. Furthermore any concerns over accuracy should represent a technical issue that needs to be overcome, and not a reason to not implement this proposal.
- Any obstacles Transco might have in amalgamating the data from various types of meters could also be overcome by either installing instantaneous meters or by using standard conversion factors.
- The CIA does however agree with Transco and the DTI in its findings that accurate data is required, however we are concerned that this decision was reached without consulting consumer representatives. Whilst zonal data is adequate for the DTI initiative participants, the CIA believes the market participants will see the real benefits of sub-terminal data.
- The CIA is aware that there has been talk of producers withdrawing from the voluntary agreement if this proposal was to go ahead. Information required by Transco for the economic and efficient use of the NTS system must be governed by regulation, and so should not be able to be withdrawn at any time. Given the importance of this data the CIA feels it should be regulated, thereby overcoming this threat.
- The CIA is surprised over the apparent time lag in releasing this data that Transco envisages, which is quite a deviation from energywatch's achievable six-month timescale.

If you have any queries regarding any points raised in this response please contact [Stefan Leedham](#) on 0207 963 6736.

### **CIA Credentials**

The CIA is the leading representative and employers' body for the UK chemical industry, with 150 members at over 200 manufacturing sites. Within its membership there are a significant number of energy intensive - alongside smaller business - users of energy.

The chemical industry in the UK contributes over £5 billion annually to the country's balance of payments from a gross output of £50 billion. It accounts for 2% of UK GDP; 11% of manufacturing's gross value added; employs some 230,000 highly skilled people directly and supports several hundred thousand jobs throughout the economy nationwide. It also provides a contribution of almost £5 billion to the UK national Government and local authorities and invests some £3.5 billion on R&D.

The industry is one of the most energy intensive sectors of the economy accounting for 6% of the nation's gas and electric consumption, and is manufacturing's largest consumer of energy at 22%. In addition to its consumption of energy for heat and power generation, the industry uses energy directly in many chemical processes, as well as using hydrocarbons as raw materials in the manufacture of basic petrochemicals and fertilisers.

The chemical industry is heavily reliant on gas for its own electricity generation requirements. . The industry now generates around 30% of its own electricity, most of which is from Combined Heat and Power Plants (CHP). These plants have helped to contribute to the industry's continuing energy efficiency improvements.