



**CHEMICAL INDUSTRIES
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**RESPONSE TO GAS DEMAND MANAGEMENT
RESERVE ARRANGEMENTS**

The CIA welcomes the opportunity to respond to this important modification proposal, and the arrangements that this proposal would introduce. We provide qualified support for the implementation of this proposal.

The CIA, and its members, do not believe that demand side response should be a routine feature of the gas market. The business plan of our member companies is to manufacture chemicals and service customers safely and reliably. They should not be required to curtail production as a regular means of protecting gas supply to the domestic sector. However we recognise that demand side destruction is an unavoidable element of the UK's market for this winter, and we have informed our members that they should develop appropriate winter strategies.

In particular our comments are as follows:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

- (a) *The efficient and economic operation of the pipe-line system to which this licence relates.* By providing an additional route to the market for demand side response, this may reduce market prices, and so may protect the residual balancer from higher prices.
- (d) *So far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition.* Consumers would be "bidding" to provide a demand side response, and so would be competing with each other to provide this service. This modification would further introduce an incentive on shippers to introduce new and innovative contracts, securing further competition between shippers/suppliers.
- (e) *So far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply*



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security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers. The CIA is concerned that the implementation of this modification may reduce the incentive on shippers to procure demand side response. However the CIA believes that the incentive provided by the current cash out regime will ensure that shippers continue to ensure that they can balance their position.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation. The CIA understands that this modification would enable National Grid to take actions in order to avoid a potential gas emergency, which would be beneficial for security of supply. Further as already stated the CIA notes that this will provide an additional route to market for demand side response, thereby positively impacting security of supply.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) Implications for operation of the System. The CIA believes that this proposal will provide National Grid with an additional tool for balancing the system and avoiding an emergency.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs. The CIA would note that demand side response is required in order to protect the domestic sector, and those who cannot be isolated from the system. It may therefore be appropriate for the costs to be recovered from those who would benefit from demand side response, based on the “polluter pays” principle.

Further Comments

The CIA is aware that the details of implementing this proposal have not been fully determined. We are aware from our members that there are significant levels of demand side response within the chemical sector that have not been contracted for under the current arrangements. Some chemical sites have back up fuel capacity, but did not switch last winter as they had already “fixed” the cost of their gas, and were not price responsive. This suggests that the current arrangements are not adequate and alternatives need to be developed. The CIA believes that this modification provides this solution.

The current arrangements in the UK ensure that the domestic consumer will be protected at the expense of the industrial consumer. Currently both National Grid, and the domestic consumers, receive this service free of charge, with no compensation for those who are providing an essential service. The CIA believes that this modification will overcome this discrepancy.

Yours faithfully
Stefan Leedham