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UNC Modification 90: CIA Response

CIA has been actively involved in the development of Modification 90 "Revised DN Interruption Arrangements". At this moment in time we do not support the implementation of this proposal. We do not believe that the system has endured a 1 in 20 peak day and we require evidence that too much interruptible capacity is available.

CIA has concerns that the Working Group has not been able to evaluate how much interruptible capacity the Gas Distribution Network Owners (GDNs) require. Furthermore, the update from Ofgem does not include any information on the amount of excess interruptible capacity or the cost of "universal firm" on the gas distribution networks. It appears that the quantity of interruption required is a difficult amount to determine and depends on gas flows at any given time. We are concerned that risk would increase under modification 90, as the system is reliant on the accuracy of the GDNs' forecast of the volume of interruptible capacity.

CIA requires clarity on whether all sites would be firm under modification 90 if they are not successful under the application process or choose not to enter into the process. Would all sites automatically be firm, or would an economic test be applied? This process is not included in the legal drafting and we require confirmation of the process that would be followed.

CIA notes that Ofgem believes that the current regime doesn't include signals about customers' costs of being interrupted, and that there is a lack of product flexibility. However, in any regime there is trade off between simplicity and complexity, and under this regime our members prefer simplicity. We believe that the market response from gas consumers may be limited such that the value may not in fact be revealed, which may lead to extra investment in networks that was not previously required.

CIA members believe that the extra complexity introduced through this modification will benefit neither GDNs nor the market as a whole. Work Group members also suggested that the additional cost and risk burden associated with implementing this Proposal could discourage Shippers from actively competing in this segment of the market, and would



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discourage market entry. CIA cannot support a proposal that reduces competition between relevant Shippers and between relevant suppliers.

CIA notes that implementation would lead to a reduction in interruptible sites available at Stage 1 of an emergency, and there could be more rapid progress to Stages 2 and 3 of a Network Gas Supply Emergency. If firm load shedding at Stage 3 is not successful then implementation could increase the probability of proceeding to Stage 4.

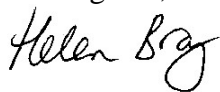
CIA members receive conflicting messages regarding their flexibility and back-up fuel. Ofgem has requested that customers and suppliers work together to ensure that sites can respond to supply/demand conditions. However, through modification 90, Ofgem would remove a customer's decision regarding interruption and give this choice to the GDNs. We believe that this will have a negative impact on the responsiveness of customers going forward. We note that gas can be considered in terms of commodity and capacity, however on a chemical site these two areas are interlinked.

CIA members would like to stress that to operate on back-up fuel is not a no-cost option as this requires long term investment and has ongoing costs, for example, maintenance and extra emissions permits. If a company is unsuccessful in the tender for interruptible capacity then the back-up fuel equipment effectively becomes a stranded asset. A decision would then need to be made on whether to continue to spend money on maintaining this equipment. It would be hard to prove a business case for maintaining equipment on the vague notion that it might be needed if the company is successful in obtaining interruption rights. Furthermore, investing in new equipment to allow running on back-up fuel will be less likely as there is no certainty that chemical sites would be successful during the application process. The long term the result could be that chemical companies will have significantly less ability and flexibility to operate an interruptible gas contract, reducing the overall ability to respond to future gas supply problems.

For the avoidance of doubt, we do not support the implementation of modification 90 and do not believe that the case for change has been made.

Please contact me, if you require any clarifications.

Kind regards,

A handwritten signature in black ink that reads "Helen Bray". The signature is written in a cursive, flowing style.

Helen Bray
Head of Competitiveness and Utilities