Representation For. 0021

"Revision of the Emergency Cashout Arrangements"
Version 1.0

Date of Communication:	01/07/2005
External Contact:	Stefan Leedham (Chemical Industries Association Limited)
Slant:	Against
Strictly Confidential:	No

Abstract

The CIA welcomes the opportunity to respond to this important modification. The CIA is not able to offer support for this modification, though we do support some of the concepts raised by this proposal. In particular the CIA believes that:

· This proposal should have followed normal procedures and should have been discussed within the Cash-Out Review Working Group (CORWG) and Transmission workstream before being raised. We believe that this would have resulted in a more robust and fully developed modification than the one that has currently been presented.

· The setting of the Emergency cash-out buy price at the prevailing System Marginal Price (SMP) buy, and the sell price at prevailing System Average Price (SAP) are potentially appropriate relevant prices. We believe that under the current regime setting the Emergency Cash-Out price at the 30-day SAP average does not encourage shippers to ensure they are balanced before entering an emergency.

· The CIA supports Transco's view that the introduction of this price will also provide a clear signal to both consumers and shipper as to the value of interruption before a GDE is called. Many of our members report that currently they are not incentivised to take a shipper nominated interruptible contract, and so at a time of tight supply/demand some members are moving to firm supply contracts.

· The CIA also believes that the introduction of a dual cash-out price will encourage both Users and Transporters to ensure they take all possible steps to ensure they are in-balance before an emergency is called.

· We support the proposed methodology for calculating emergency interrupted volume (EIV) and believe the Offtake Profile Notice (OPN) represents the best proxy for this volume. However we seek clarity as to the methodology that will be employed when no OPN is available and the site has been interrupted for a period longer than 21 days.

· The CIA would question whether the 30-day average SAP is an appropriate price for the EIV trade. If this price is set to provide an adequate level of compensation to shippers then it is to be supported, however if it is also designed to encourage the supply of gas over the interconnector, then we are unsure as to how this mechanism will work. This is especially important given that if the UK enters a GDE emergency, then other European countries that do not have an indigenous gas supply could be in a similar position.

· The CIA welcomes the introduction of an EIV trade, as it will ensure that a shipper that was not balanced before a GDE would not benefit from Transco actions in an emergency. However we would seek clarification as to how any disputes over the EIV will be resolved. This is particularly important given that an inaccurate calculation could be detrimental to a shipper that was in fact balanced prior to a GDE being called, and who would ultimately pass these costs onto the consumer.

· The CIA also remains sceptical about the effectiveness of these measures in reducing the extent and duration of a GDE. We understand that during a GDE the market is controlled by Transco who will instruct producers, shippers and consumers. These new emergency arrangements will not alter the fact that Transco controls the system.

If you have any queries about any of the points raised in this response please contact Stefan Leedham (0207 963 6736)