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**CIA Response to Modification 0049 “Optional Limits for Inert Gases at System Entry Points”**

The CIA would like to take this opportunity to register its strong opposition to this modification. We believe that it has not been fully thought through and its consequences have not been properly assessed. Transco has failed to adequately explain the benefits of implementing this proposal and has not given industry adequate time to address the impacts that this modification will have on every gas consumer in the UK. In particular the CIA believes that:

1. In all of its presentations on this subject Transco has stated that the leading drivers behind this proposal have been the new gas import projects, and so this modification has important security of supply implications. This assertion further appears to be confirmed by Transco’s Draft Modification Report (DMR). However:
  - The CIA is unaware of any new import projects that are due to come on line prior to this Winter and the proposed implementation date of 1/11/2005. We understand that the Isle of Grain terminal has already altered its gas specification requirements, and has released gas onto the National Transmission System (NTS). The only additional source of gas is the Bacton-Zeebrugge upgrade, however this does not represent a new source of gas, merely an increased capacity and so the CIA does not believe it will be affected by this modification.
  - The CIA is also unaware of any additional gas sources that will flow into the UK from the UKCS as a result of this proposal. We have been in contact with both Transco and an upstream producer, who have informed us that UKOOA were never consulted prior to this proposal, and that the impact of securing additional gas sources from the UKCS was minimal.
  - We also find it odd that, if the new import projects require the implementation of this proposal before they can sign contracts to secure gas to supply these terminals, this modification proposal was not raised earlier. South Hook LNG stated where the LNG was likely to flow from in their application to Ofgem to be exempt from the Regulated Third Party Access (RTPA), and Dragon LNG stated that its prospective users were in negotiations but needed to secure RTPA exemption before they could sign the long-term contracts. Both of these applications were raised no later than October 2004, and so the CIA can see no reason why, if it was relevant, this proposal was not raised at that time.
  - The CIA also believes that given the level of investment already made at all of these import terminals, the likelihood of gas not flowing if this modification were not accepted is remote. The CIA therefore firmly believes that the implementation of this proposal prior to this winter will not have any security of supply benefits.
  - Further, given that it is unlikely that any additional gas sources will flow to the UK this winter as a result of this proposal, we fail to see what impact it will have on prices.



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2. Transco states that one of the other driving forces behind this proposal was the desire to avoid numerous modifications from new entry terminals, and so to decrease the network code workload. However:
  - Transco also states in its clarification and explanation paper that it does not believe that this modification will impact existing sub-terminals, in which case the CIA believes that this modification has been raised to avoid four network code modification proposals in respect of South Hook LNG import terminal, and Dragon LNG import terminal at Milford Haven (both due to come on line in 2007), the Bacton-Balgzand Interconnector and the Langedale Pipeline at Easington.
  - The CIA does not agree with Transco that raising one all-embracing and potentially very costly modification is a sensible alternative to a series of simpler individual modifications. CIA believes that raising individual modifications would also involve less work than raising one with such wide-ranging implications.
3. CIA understands that a further factor behind this modification has been Ofgem's desire to ensure that all system entry points operate on a level playing field. The CIA believes that:
  - Ofgem's goal of equality is desirable, but sits oddly in a market that suffers from asymmetrical access to information. Further we believe the current GS(M)R and Ten Year Statement specifications provide an adequate level of equality, and it has only been Transco's divergence from these specifications when agreeing individual system entry specifications that has moved away from this.
  - It is questionable how Ofgem's vision fits in with the Better Regulation Principles placed on Ofgem by the Energy Act 2004.
  - Given the only likely impacts of this proposal will be on new import projects (according to Transco) and it is an optional specification and not a compulsory one, the CIA would question how this would create a level playing field? The CIA believes that the most equitable solution is to allow system entry points to agree their individual entry requirements with Transco, giving them equivalent access to existing system entry points.
4. The process that this proposal has followed raises several issues, including:
  - Transco issued a "Consequences and Clarification" document only three days before the end of the consultation process, which has prevented the CIA and its members giving it proper consideration. This action is not consistent with Transco's request that responses to this consultation be received by the 30 September due to the timetable imposed on this modification.
  - Transco's lack of consultation with the rest of the industry prior to the release of this proposal.
  - Transco state that its specifications are in line with those recommended by EASEE Gas, however the DTI has stated they have serious concerns over EASEE Gas' process as there was a lack of consumer representation present, and no formal consultation was undertaken on their proposals.
  - Further the CIA would note that EASEE Gas' specifications are only recommendations, and as far as the CIA is aware they have not been finalised. The CIA also notes that the UK cannot accept the majority of EASEE Gas' recommendations as they are outside of the Gas Safety (Management) Requirements (GS(M)R). The CIA does not therefore believe that just because EASEE Gas has recommended them the UK should implement them.
  - The impact of this timetable is that Transco has one day from the consultation closing out before it has to issue the Final Modification Report (FMR). The CIA believes that this is the first time that an FMR has had to be produced in such a short period of time, and questions Transco's ability to be able to adequately reflect all the responses to this consultation in such a short time frame.
5. The reason why this modification has such a tight timetable has been Transco's desire to have it implemented prior to this winter. The CIA can still see no reason for such haste, and questions:
  - Why Transco brought the implementation date of this proposal forward by 11 months, compared to the initial proposal discussed at the Gas Transmission Workstream?
  - Why a modification with such wide-ranging implications would be rushed through at such short notice. The DTI has been working on the gas quality issue for two years, and is known to be about to publish its results. The CIA is unclear why Transco felt unable to wait for the

publication of the results from DTI's investigation? We understand from DTI that they are hoping to publish the results of their two-year investigation in one month, which will allow for a more complete consideration of this proposal than is currently possible.

6. From the CIA's brief consideration of Transco's clarification and explanation paper, and from discussions with the DTI, the CIA remains unclear as to why this modification is required at all. In particular the CIA believes that Transco's paper suggests that the maximum amount of gas ballasting required to make LNG acceptable to the UK would result in a nitrogen content of 4-5%. This ties in with the DTI's research, which concluded that even the "richest" Nigerian LNG would only require 4-5% nitrogen ballasting. It is therefore unclear why Transco are proposing to remove the nitrogen limits altogether.
7. The CIA believes that Transco's modification has failed to take into account the full impact that this modification may have on various market participants. In particular the CIA is of the view that:
  - Whilst it is reassuring to know that Transco expects only a small impact on the average NTS gas specifications, Transco also needs to identify the likely range of specifications that will be experienced, the possible maximum levels of inerts (DTI estimates 20% although the probability of this occurring is very small), and also the likely locational impacts that this modification is likely to have. It is important to note that currently some members experience very low levels of nitrogen and carbon dioxide content, so it is important to identify how different areas will be affected. Only once this information is available will industry be able to offer a qualified and informed view on this proposal.
  - Transco is unable to guarantee that the existing sub-terminals will not flow gas with increased quantities of carbon dioxide and nitrogen in the future, and so it is presumptuous to assume that they will not.
  - Transco has failed to identify how this modification will impact the EU ETS and the Carbon Emissions Factor (CEF). The CIA is aware that the DTI and DEFRA are still currently discussing the situation, and until they have concluded these discussions Transco is unable to comment what the impact of this modification will be on these areas.
  - Transco has further failed to address the impact this modification may have on allowing supplies containing greater levels of higher hydrocarbons into the UK system, and the impact these may have on emissions and safety for all consumers.
  - Transco state that the cost of nitrogen and carbon dioxide ballasting will ensure that these are kept to a minimum, however the CIA is aware that DTI's research has shown that the cost of injecting nitrogen and carbon dioxide into gas using existing technologies equates to no more than tenths of a pence per therm.
  - The CIA wishes to state strongly that only after all the possible impacts of this modification have been identified, can industry undertake a proper evaluation of this proposal. The majority of this information should become available in one month (in the DTI's assessment), and again the CIA questions why Transco has rushed this proposal through.
8. Transco states in its DMR that it believes that there will be little impact on consumers as a result of this proposal. Apart from the possible additional costs of EU ETS allowances were the CEF to be altered, the CIA is aware that an increase in inert gases to 5% will have a significant financial impact on chemical feedstock users in the region of tens of millions of pounds per annum. Nitrogen and carbon dioxide are process limiting for chemical companies that use gas as a feedstock and increasing inerts decreases the quantity of methane that is present. The CIA therefore questions Transco's assertion that this modification will only have a modest impact, and believes that a full impact assessment needs to be undertaken to identify all of the costs of this proposal.
9. It is vital that this impact assessment identify what the costs and benefits of this proposal are to the entire industry, that it recognises the risk that the CEF may be altered as a result of it, and identifies what the benefit of this modification compared to four individual proposals over a period of years.

If you have any comments or queries about any of the points raised in this response please contact Stefan Leedham ([Leedhams@cia.org.uk](mailto:Leedhams@cia.org.uk), 0207 963 6736),