

Julian Madjanski
Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

6th September, 2006

Dear Julian

Re: Draft Modification Report 0105

INEOS Enterprises Ltd (“INEOS”) wishes to provide the following response to the above draft modification report.

Introduction

INEOS believes that this Modification Proposal is consistent with Ofgem’s proposed interim arrangements for the Holford facility as set out in their recent consultation document.¹

In response to that consultation, INEOS supported the Ofgem’s proposal and the approach which provided access to interruptible entry capacity. But had one specific concern; assurance that the DN would be required to maximise the availability of capacity at the entry point. This issue is probably best resolved via a bilateral agreement between the parties (as suggested in the Modification) but INEOS wishes to make the point in its response to this proposal that, although it is probably not appropriate to include the provision within the UNC, it is important that such a provision is required. The service provided to Holford should be no worse than that provided to other existing embedded entry points who’s ability to access firm entry rights has been due simply to the timing of their application. Apart from this, INEOS fully supports the implementation of this Modification Proposal.

INEOS also believes it inappropriate to specifying 1st October 2007 as the end date for these arrangements. Our understanding is that when the long term arrangements are introduced, via a UNC modification, the interim arrangements will be superseded. In the event that there is a delay in the implementation of the long term arrangements beyond 1st October 2007, then the interim arrangements should be allowed to continue.

¹ New entry arrangements for connecting to the gas distribution network – Ofgem, July 2006

Modification Report Sections

1. Consequences of non-implementation

This proposal encapsulates the basic principle of the Ofgem proposal insofar as it permits Holford access to the NBP on an interruptible basis. The Ofgem proposal required that changes were made to the NTS GT Licence in respect of the creation of an entry point and the allocation of baseline quantities. This proposal, it seems, achieves the same result without the need for modifying the NTS GT Licence. If this modification were not implemented then it is likely to result in either a delay, or denied access to the NBP for users of the Holford facility. This would significantly impact the commercial viability of the facility which could lead to an undermining of security of supply.

2. Facilitation of the Relevant Objectives

The implementation of this Modification Proposal would further the Relevant Objectives under SspCA11 (a) and (d) of the GT Licence. By providing shippers with access to the NBP the commercial flexibility of this storage site is improved and so therefore will be the competition between relevant shippers. The facility would also improve the economic and efficient operation of the pipeline as it would provide a swing service which would respond to price and demand.

3. Impacts on Security of Supply, Total System operation and industry fragmentation

If this Modification Proposal is not implemented, the operational starting date for the Holford facility would most likely be delayed. The forthcoming winter is expected to be 'tight' in terms of the supply-demand balance for gas and therefore any available storage should be encouraged/permitted to operate. INEOS therefore argues that the implementation of this proposal would enhance security of supply. It is not anticipated that the Modification Proposal would impact total system operation or industry fragmentation.

4. Implications for Transporters

a. operation of the system

This is a matter to be covered in the bilateral agreements between the Parties i.e. the SCA. INEOS believes that, due to the directional response of flows to demand conditions, the operation of the Holford facility would assist the local transporter.

b. development and operating costs

None

c. cost recovery

None

d. consequences on price regulation

None

5. Impact on contractual risk for transporter

None

6. Impact on UK Link and other Systems

None

7. Impacts on Users, including contractual risk etc...

This Modification Proposal would permit the Holford facility to be commercially viable for the forthcoming winter by allowing it access to the NBP.

Users should then benefit from the additional flexibility which should reduce the marginal cost of gas acquired for balancing purposes.

8. Impacts on Terminal Operators, Consumers, Connected Systems Operators, Suppliers, Producers, and any non-Code Parties

The Modification Proposal would permit the storage site to be commercially viable for the forthcoming winter which will benefit the facility owner and also consumers during a period when the gas demand/supply balance is expected to be tight.

9. Consequences on legal and regulatory obligations

None

10. Advantages of the Modification Proposal

- It is consistent with Ofgem's preferred approach as detailed in the recent consultation.
- It provides a simple to implement and operate interim solution prior to the introduction of the long term approach.
- It will permit the facility to be operational during the forthcoming "tight" winter.
- The additional flexibility provided by the facility will contribute to reducing the costs of balancing and therefore price of wholesale gas.

Disadvantages of the Modification Proposal

- It will mean that existing DN entry facilities are subject to a different arrangement during the interim period

If you have any questions or wish to discuss any aspect of this response further, please contact either myself on 01928 516562, or Nick Wye on 01295 750099.

Yours sincerely

David Dykes