

Julian Majdanski  
UNC Panel Secretary  
31 Homer Road  
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West Midlands  
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20 May 2008

Dear Sir,

## **Response to Modification Proposal 0210 Draft Report**

INEOS Enterprises Ltd ("INEOS") does not support the implementation of this Modification Proposal as it imposes a discriminatory cost structure which seriously undermines the ability of embedded storage facilities to continue to operate.

INEOS is the owner and operator of Holford165 gas storage facility, (salt cavern), which is located within the NW DN. Currently, and consistent with NTS connected facilities, the Users of this facility are able to inject gas into the facility on an interruptible basis at zero cost. This modification will introduce a level of charge which will have serious cost implications for the Users of the facility. It is likely that if this charge is imposed then INEOS will have to consider closing the facility, denying the UK gas market access to a valuable source of flexibility.

INEOS believes insufficient consideration for DN embedded storage facilities has been undertaken in the Modification Proposals and the following aspects given inadequately reflected;

DN charges are required to be cost reflective, or at least any change to charges must provide for improved cost reflectivity. In our opinion, the level of costs imposed by storage sites on the system are very different to those imposed by uni-directional offtakes. Storage sites do not offtake gas during peak demand periods instead they will deliver gas into the local system. This behaviour is predictable and will reduce the DN's need to obtain equivalent levels of flexibility from other sources, such as the NTS. This has particular relevance when considering the incentive arrangements applied to DN's in relation to their booking of NTS capacities.

The arbitrary nature of the level of the discount clearly provides winners and losers depending upon the level of the utilisation or load factor. It is difficult to conclude that a level of charge based on a standard reduction to firm charges provides for improved cost reflectivity. This is particularly marked when considering the transportation arrangements for equivalent facilities connected to the NTS. In effect the change proposed by DNs will disadvantage embedded facilities to such a degree that they will be unable to compete with NTS connected facilities. This will lead to plant closure or non-investment in potential sites. In the case of H165 the Modification Proposals will result in costs increases of many 100's percent.

INEOS believes that there is a strong case for singling out storage facilities and treating them in a different manner to other offtakes:

- They are bi-directional, taking gas off the system during off-peak periods and delivering gas during peak periods. This will benefit the local system, providing a free swing service and reducing the need for the system to be reinforced.
- Storage sites will be connected to high pressure tiers of the networks, using limited pipe and services. In addition it is possible that the pipe delivering gas is used to deliver gas to other offtakes i.e. bi-directional. This will allow for twice the volume of gas being flowed through a single pipe, which in turn will provide increased revenues and reduced investment requirements.
- Other offtakes are considered to be worthy of differential treatment i.e. CSEPs and Short-Haul tariff qualifying sites. These sites are deemed on the basis of their reduced utilisation of the network to be worthy of special treatment.
- At the NTS level storage sites are viewed differently to other offtakes as confirmed by the non-application of the SO commodity charge.

As stated earlier in this response, we believe that the impact of this implementation of this proposal should not be underestimated to INEOS, (closure of this asset is a very real prospect), and may well undermine future security of supplies in the UK Gas Market.

Yours faithfully



**Nick Williamson**  
Business Development Director