



CHEMICAL INDUSTRIES
ASSOCIATION

**NGC System Operator incentive scheme from April 2005:
Initial Proposals:**

Response by the Chemical Industries Association

The CIA welcomes the opportunity to comment on the GB SO incentive scheme to apply from 01 April 2005. We agree that a single GB wide SO incentive scheme should be developed given that the British Electricity Trading and Transmission Arrangements (BETTA) are due to go-live on 01 April 2005. The CIA notes that Ofgem has proposed the use of asymmetrical cap, floors and sharing factors in order to accommodate any perceived uncertainty in relation to GB SO costs. The CIA would prefer all options proposed to have symmetrical cap, floors and sharing factors. The CIA is also aware that due to the uncertainty in the operation of the market that the SO incentive scheme only runs for 1 year, however, we would prefer that incentives scheme in the future are developed for longer periods of time.

The CIA notes that Ofgem sets a target for the SO incentive scheme, with the aim of reducing, on behalf of the customer, the costs of operating the transmission system and the costs of balancing in real time the supply and demand for electricity. We agree with Ofgem that NGC's scenarios may overstate the uncertainty in the operation of BETTA. The CIA therefore supports a low target for costs, and would prefer this scheme to have symmetrical cap, floors and sharing factors.

The CIA believes that more information should be published during the year on NGC's performance against the SO incentive, which will help market participants make informed decision on the performance of NGC.

If you have any comments on the following issues, please contact myself on 020 7963 6718.

Kind regards,

Helen Bray
Utilities Policy Manager
Chemical Industries Association

CIA Credentials

- The CIA is the leading representative and employers' body for the UK chemical industry, with 150 members at over 200 manufacturing sites. Within its membership there are a significant number of energy intensive - alongside smaller business - users of energy.
- The chemical industry in the UK contributes over £5 billion annually to the country's balance of payments from a gross output of over £46 billion. It accounts for 2% of UK GDP; 11% of manufacturing's gross value added; employs some 230,000 highly skilled people directly and supports several hundred thousand jobs throughout the economy nationwide. It also provides a

contribution of almost £5 billion to the UK national Government and local authorities and invests some £3.5 billion on R&D.

- The industry is one of the most energy intensive sectors of the economy accounting for 6% of the nation's gas and electric consumption, and is manufacturing's largest consumer of energy at 22%. In addition to its consumption of energy for fuel and power, the industry uses energy as an essential feedstock for the start of many chemical processes, which add value to the basic raw materials. The industry's annual combined energy and feedstock bill amounts to an estimated £2.5 billion.
- The Chemical industry is also heavily reliant on gas for its own generation requirements. A lot of this generation comes from Combined Heat and Power Plants (CHP).