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Dear Ian,

Submission Proposal to Amend MPOC – Balancing, and the Proposed Gas Governance (Balancing) Rules 2009

Natural gas is Evonik Degussa Peroxide Limited's most critical component for manufacturing Hydrogen Peroxide. Therefore rules and regulations that impact positively or negatively on the supply and transmission of natural gas, either from a security of supply or a cost perspective, are of interest to the company as they may potentially impact the company's viability.

The purpose of the Proposed Gas Governance (Balancing) Rules 2009 is to achieve an efficient, unified balancing arrangement for managing imbalance in the transmission system. Evonik Degussa Peroxide Limited believes that the proposed rules will not benefit either gas suppliers or users; rather they would artificially increase the cost of gas to end users. Further we would argue that the current system is working well under the current "self regulation" where by gas suppliers are allowed a degree of flexibility to manage imbalances without facing financial penalties that would ultimately be passed on to end users such as ourselves. This belief is supported by the infrequency of critical gas supply emergencies.

An argument towards the need for rules is that Transmission Pipeline Operators are financially exposed by gas line imbalances. We would suggest that this exposure is at most short term and that cost recovery of imbalances is built in to the fixed costs of transmission, which are currently adjusted annually.

Evonik Degussa Peroxide Limited would also argue that:

- End users need flexibility as they cannot accurately predict all the circumstances related to gas usage such as breakdowns, electrical interruption, externally driven changes in production demand.
- The proposed rules will add cost with no value added. This in turn negatively effects the end users' competitive positions.

- The currently used information technologies disadvantage both the supplier and end user. On-line, real time usage data available to both suppliers and end users would be required before contemplating the proposed rules. For example, the current system has a one to two day delay for the supplier to see the end users usage – Real time data is needed before variation tolerances can be reduced or more restrictive balancing penalties applied.
- If the balancing agent wishes to reduce financial exposure, the pipe line operators and the gas suppliers should look at a system of gas banking where suppliers make up for any imbalances through gas supply adjustments , not through buying and selling; That would be letting gas be the “currency.”

In Summary

- The current system is working well under “self regulation.”
- Cost recovery of imbalances is built in to the fixed costs of transmission which are adjusted annually.
- End users need flexibility as they cannot predict all reasonable circumstances.
- The proposed rules add cost with no value added. This in turn negatively effects any end user’s competitive position.
- The current system has a one to two day delay for the supplier to see the end users usage – Real time data would be needed to allow tolerance reduction if the proposed rules were implemented.
- Why not use a gas “bank”? Let gas be the “currency”.

On behalf of:

Evonik Degussa Peroxide Limited.



Arnold Yeoman

Site Manager