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Mr Andrew MacFaul
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Gas Security of Supply SCR Initial Consultation

Dear Andrew,

Blizzard Utilities represents a number of customers in the transport, ports administration, manufacturing, healthcare and not for profit fields. We represent the interests of in excess of 1,500 sites in both the private and public sectors. Further, the undersigned is the chair of the Chartered Institute of Purchasing and Supply's energy special knowledge group. The group comprises of a number of energy industry experts who represent the interests of various end customer groups.

We welcome Ofgem's consultation on the Significant Code Review of gas security of supply. However, having reviewed the content of the document and the options preferred we would like to ask the following questions of our own which we believe have not been answered.

1. Why did Ofgem do away with the original interruption contracts, we know that the cost was born by firm gas contracts but it did work?
2. Surely the priority is to avoid an emergency situation?
3. Should we not be attracting more gas from Europe and the Middle East such that we can get out of an emergency situation quickly?
4. Should we not be incentivising additional storage?

Set out below is Blizzard's response to the questions posed in the consultation document. Please note that we have no answered some questions because we feel that we are not sufficiently qualified to do so.

Options for reform of the emergency arrangements

1. *Have we captured the appropriate range of options for reform of the gas emergency arrangements? Are there other options that should be considered?*

   Having reviewed the options Blizzard is unable to identify any other options that Ofgem could have considered.

2. *Of the three options presented, which do you prefer? Why?*

   Blizzard prefers option.1 because the cash out price remains dynamic & market balancing determines the cash out price. Trading would continue and compensation paid to those customers who have their supply interrupted.

3. *What is the appropriate role for NGG in an emergency?*

   As the manager of the markets and distribution network NGG should continue to balance the market and to instruct customers to cease taking a supply of gas.

4. *Do you have any comments on our initial assessment of the pros and cons associated with each option?*

   We cannot see the logic in freezing the market and cannot see any advantage in capping the market. The capped price would be known and could become the market target price and raise expectations. Blizzard, however welcomes the payment of compensation as this will act as an incentive to the end customer.

5. *Are there any safety cases implications associated with each option?*

6. *What benefits, if any would dynamic cash-out bring relative to the post emergency claims arrangements?*

The potential case for enhanced obligations

7. *Are there any reasons why industry might not respond adequately to sharper price signals, thus delivering sub-optimal security of supply? How could these be overcome?*

8. *What are the likely barriers to attracting gas imports during a GDE? Could these barriers be overcome?*

9. *Do you think that the risks associated with sharpening price signals make it necessary to apply additional obligations on relevant parties?*

10. *If enhanced obligations were applied, to whom should they be applied and why?*

11. *How could obligations be designed and enforced?*

12. *What are the risks and potential unintended consequences associated with placing enhanced obligations on parties to ensure security of supply? Can these be overcome?*

We have not answered the individual questions relating to Obligations but we do have some generalised observations regarding this subject. Our comments are set out below.

Contract length we believe is an issue that is important. We are of the opinion that the following have yet to be addressed:-

- Contracted period, winter only or 10 years?
- How much of the shippers volume should be contracted?
- There are issues relating to small suppliers who buy at the NBP?
- Long term contracts could reduce market liquidity further out and ultimately reduce competition in supply.

Some shippers are unable to contract to reduce demand because of the shape and content of their customer portfolio.

If demand is reduced along with the release of gas would this not have a dampening effect on market prices?

Earlier in this response Blizzard made mention of incentivising new storage however, an obligation to use existing UK storage could reduce gas availability and therefore lead to a gas emergency? An obligation to using new storage will be a costly decision? However, could not top-up be re-examined and the systems improved?

It is Blizzards understanding that obligations on System Operator had the most support at the Ofgem workshop?

Is not the obligation to contract for electricity demand reduction also held by NGG? Do we wish to put all our eggs in one basket?

Would not the provision of extra tools for the NEC to prevent an emergency be one way of tackling the problem i.e. GBA supply and GBA demand?

Criteria for assessing options and next steps

13. *Have we captured the feasible range of costs and benefits for inclusion in an impact assessment?*

The value of lost load (VoLL)

14. *Would it be appropriate to have multiple administrative VoLL settings for different customer groups? Why/ why not? How are VoLL estimates likely to vary between customer groups?*

15. *For a customer group, how should we determine where in the range of estimates (i.e. VoLLmax, VoLLaverage or VoLLmin) we should apply a single administrative VoLL setting?*

16. *Should the compensation payments to disconnected firm customers (based on VoLL) change with the duration of the interruption and the season in which the interruption occurs?*

17. *What are the advantages and disadvantages of various methods for estimating VoLL?*

18. *What sort of compensation arrangements should be used to apportion the costs of compensation between shippers?*

Blizzard has not answered the individual questions relating to VoLL, however, set out below are our concerns.

Ofgem recently produced a discussion paper which set VoLL at between £2 and £52 per therm. This could result in compensation in the billions on a daily basis. How would this be funded?

VoLL could ultimately bankrupt smaller shippers and therefore reduce competition in this area?

We envisage that VoLL could vary from customer to customer. Many of Blizzard's clients, whilst they would be happy to interrupt, providing they receive adequate compensation, are unable to provide a figure for VoLL. Blizzard would anticipate that VoLL for say a steel producer, where interruption could result in damage to an arc furnace, could result in a claim for millions versus an airport operator, where the only inconvenience would be a lack of heating/hot water for passengers and therefore interruption is less of an issue?

Ultimately the main question for end customers is where are the funds to come from to meet the compensation bill and for how long would they continue to receive compensation. It should be remembered that whilst a gas emergency could be short lived, the reinstatement of supplies could take months. The recent cut in gas supplies to villages in Eastern England has taken NGG several weeks to reinstate as they have to carry out safety checks to each and every property?

In conclusion, there must be a sense of urgency in introducing new powers. The normal regulatory powers could deliver the requirement to deal with a gas emergency but not until 2012. Existing interruptible procedures could provide protection for the next winter.

It seems to Blizzard that the bulk of these questions are targeted at gas suppliers and shippers and certainly the seminars and workshops were well attended by shippers. Ofgem should also consider the customers wished and perhaps a separate seminar should be run with the end customer in mind?

The question still remains as to why Ofgem scrapped the original interruptible gas contracts?

Yours sincerely

M.C.R

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& Chair of The CIPS Energy Special Knowledge Group