



CHEMICAL INDUSTRIES  
ASSOCIATION

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## **Gas Security of Supply Significant Code review (SCR) – Ofgem Initial Consultation**

### ***Response from Chemical Industries Association***

The Chemical Industries Association<sup>1</sup> welcomes the chance to respond to this consultation especially as our membership not only use a large amount of gas for direct firing, but also as a feedstock for a number of chemical processes. It is essential that our members enjoy secure, competitively priced energy if they are to continue to invest in manufacturing plant in the UK.

There has been considerable detailed discussion on this subject through a number of workshops and two seminars. We welcome this review and the overall goal of putting market arrangements in place that further minimise the likelihood of a gas emergency occurring. We also welcome Ofgem's view that there should be compensation to firm customers if ever interrupted and note that there seemed to be overall acceptance for this by all market participants.

Although the CIA has not participated directly, both Tata Steel and MEUC have represented consumers and we support their broad comments made in the three workshops. From feedback and the recent closing seminar / Demand Side Working Group it is clear that there is yet no consensus from any market participants. Although Ofgem has highlighted that they wish to receive indications of which option is best (even if it is the best option of a bad bunch) the CIA find it hard to support any of the options in its entirety at this early stage.

Given that this is the initial consultation and Ofgem have not yet decided on the best route please find our key messages below. We hope these will help to constructively feed into the process, highlighting what we feel are the key issues and drivers for a change in the arrangements.

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<sup>1</sup> With an annual turnover of £60 billion, chemical businesses in the UK are a key contributor to the economy. Every working day, our sector adds £30 million to our country's balance of trade. The jobs of 600,000 workers in the UK depend on chemical businesses.

Key messages;

***Compensation for end consumers*** – we welcome the recognition that end consumers who are cut off when on firm gas contracts should receive compensation for the loss of supply. We would expect any compensation to cover the full loss of manufacturing not just the damage to manufacturing plant. There has already been plenty of discussion so far on the Value of Lost Load, but it is clear that a one size fits all approach (or even a number of bands) would still be inadequate for the chemical sector which is highly diverse. We welcome more detailed discussion on possible compensation measures.

***Greater Physical not financial security*** – the goal of this review is to increase security of supply in the UK. We hope this review will result in greater physical security (greater gas storage, more demand side response) and not financial security via insurance cover smeared across the market. Both will come at a cost to consumers but paying for insurance cover is not preferable.

***Demand side response*** – while it is not possible for all of our members to actively participate in demand side response, be it due to processes on site, HSE or the large intensive nature of some sites. There are members of the CIA who are part of the current interruption regime and will no longer be offering the service under the proposals of UNC Modification 90 that comes in force in October. The complexities of the bidding process and the large degree of risk weighted on the end consumer have been discussed in past forums. Although the networks may no longer have the capacity constraints as in the past (and hence need for interruption) we still feel there is a role for some sites to offer demand side response. We urge Ofgem to investigate the amount of demand side response that is available to the market (at present unknown) and assess whether there is sufficient to offer increased security to the market and therefore require further market arrangements.

***Pre-emergency alert*** – it is understood that National grid raised the option of a pre-emergency alert to the market in which a percentage of gas could be rationed to sites to allow safe shutdown in an emergency. As expected the devil is in the detail and although not possible with some of our sites especially those with continuous processes, we see merit in investigating this further. We welcome further discussions of the terms of such an alert especially on timing, the coordinator and the impact in terms of compensation.

***Definition of an emergency*** – the security of supply standard to be achieved under this review is currently unclear and the interactions with EU Member States are uncertain in an emergency. We urge Ofgem to develop thinking on what standard is required in the UK and therefore base the market arrangements around that conclusion.

***Success indicators*** – it is important that any proposed changes ensure that the market delivers increased security of supply. At a recent Ofgem DSWG meeting it was highlighted that further diversified portfolios, increased long-term contracts with LNG, greater storage and increased demand side response were the key indicators for

success. Have Ofgem currently got appropriate data from suppliers to assess these indicators and therefore be able to compare in the future?

*Finally* we would be supportive of a physical meeting through a forum such as the Energy Intensive Users Group to discuss more specific issues directly with Ofgem.