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Dear Peter,

## **Gas Security of Supply SCR Initial Consultation**

Thank you for the opportunity to comment on the above proposal amending the GB security of supply arrangements during a gas supply deficit emergency. As the largest independent supplier of gas in the UK, Corona Energy (CE) is concerned to ensure that the arrangements are effective, economic and proportionate. CE has raised a number of concerns in the past with the existing arrangements and therefore welcomes the review currently being undertaken by Ofgem.

Having a robust gas market is clearly important to both market participants and to the millions of customers that rely on the gas market to deliver secure, reliable energy. As the largest gas supplier to the public and not for profit sector, CE is acutely aware that delivering value for money is also a vital consideration as all costs will eventually be reflected in customer costs.

### History

Great Britain (GB) gas supplies have always been considered reasonably reliable due to the production on the UK Continental Shelf (UKCS). GB previously lacked the import infrastructure found in many other European nations (e.g. France and Germany).

Since the turn of the century GB has become much more reliant on imported natural gas supplies due to a decline in production from the UK Continental Shelf (UKCS)<sup>1</sup>. The GB gas market has delivered considerable investment in new import capability which has more than doubled the entry capacity of the GB gas network. The market has also consistently delivered the lowest non-publically subsidised retail prices in

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<sup>1</sup> It should be noted however that the UK is still considerably more self reliant than many other European nations.



Europe despite the global increases in energy prices. This led to gas becoming the de facto standard heat source for the majority of domestic energy customers.

### Recent Relevant Developments

In the last three years a number of factors have impacted on the gas market that are likely to have a long-term impact on GB security of supply. These are:

**Carbon Reduction** - As gas has the lowest carbon to energy ratio of any fossil fuel it is likely to become much more popular as a source of energy for electricity generation. Policy makers are already referring to gas as the bridging fuel to a carbon neutral future. This is likely to signal a new wave of gas fired power stations in the near future. Many of these are likely to commercially interrupt or will have distillate backup reserves.

**Local Bio-methane** – Commercial grid injected bio-methane is a relatively new technology in energy terms but has great potential and already requires fewer public subsidies to be viable than other comparable ‘green’ energy sources (PV, wind, tidal etc). Unlike many other energy sources it is not weather dependent and due to its diversified nature can be located close to areas of gas demand.

**Smart Metering I** – Customers currently show little appetite to enter Commercial Interruption agreements which allow suppliers to interrupt their sites. This does not mean that customers would not be willing to choose to interrupt or reduce their usage at times of extreme prices if they knew when this was occurring and were able to do this automatically. Smart metering and associated technologies should offer the customers of all sizes the opportunity to offer this kind of demand reduction in emergencies.

**Smart Metering II** – Much of the cost of a network outage is due to the requirement to ‘purge and relight’ each property. As domestic smart meters contain an isolation valve it should be possible to use this technology to significantly reduce the cost and duration of any outage and therefore minimise the impact.

### Historical Evidence

While welcoming the review into the current emergency arrangements CE recognise the concerns raised by some that there is little or no evidence that the current arrangements are not sufficient mitigation against a catastrophic network failure in the event of an emergency. The argument has also been made that without witnessing such a failure it is impossible to collect any empirical evidence and it is therefore incumbent on the industry to prove the arrangements are sufficient.

One way this evidence could be collected would be to run a number of industry supported exercises (perhaps a combination of game theory and modelling) which mimics real world scenarios to stress test the ability of the market and industry



processes to cope in an emergency. The exercises could be re-run with any proposed amendments to see what effect they may have. Consideration should also be given to the behaviour by the market to previous incidents and outages.

It should be of some comfort that the evidence suggests that the market has consistently delivered gas to GB despite supply outages and high demand days. CE would suggest that the lack of a large price premium being seen during these periods reflects a mature market that is confident of the delivery of gas rather than an immature market that is unaware of the risk.

### Information and Transparency

Ofgem has highlighted in its SCR document concerns that during an emergency the GB gas market can no longer rely on the Network Emergency Coordinator (NEC) to be able to require all producers to bring gas on-shore. This is because many producers will now be outside of UK jurisdiction and are therefore free to take their gas to any market.

It could be argued that these concerns over piped gas are being addressed via the EU's Third Energy Package security of supply arrangements. There remains an issue over the operation of LNG cargoes however which may be in international waters. CE notes that a similar problem in the US was solved when they required vessels to declare their destination several hours before arriving. If the same information were available to the NEC then they would be aware of any LNG cargo on their way to deliver. CE encourages Ofgem to consider how such information could be mandated for use by the NEC in an emergency.

### Compensation

CE understands the concerns of customers that are inconvenienced during an emergency event. This is especially the case for those customers that are required by the NEC to interrupt their firm loads to protect priority domestic customers.

CE notes that this SCR is only looking at compensation from the perspective of a supply deficit emergency. However, from a customer's perspective, they are concerned regardless of the reason for the interruption and while customers regularly express concerns about the lack of any meaningful compensation from Gas Transporters, they rarely express any concerns over the lack of compensation in the event of a supply deficit emergency.

One simple way to enact these arrangements would be for a security of supply levy to be applied to all domestic customers (perhaps vulnerable customers could be excluded). This would reflect the benefit they are receiving from the security of supply arrangements. The revenue could then be used by the Gas Transporters to purchase demand or supply side options which could be used in the event of an emergency. In the event of a supply deficit emergency the cost of the exercise of



such options would be targeted on the shippers who have a short balancing position via the current balancing mechanisms. If the emergency were due to transporter related constraints the costs could be targeted back to the transporters.

CE believes that in all circumstances compensation liability caps must be considered to avoid a situation where compensation payments result in large numbers of supplier failures.

### Market distortion

Another trend since the turn of the century has been the retreat from the Industrial and Commercial gas market by many of the non-Big Six suppliers.

It is concerning to CE that many recent changes in policy and regulation appear to have a greater impact on smaller, non-vertically integrated or non-domestic suppliers. CE would encourage Ofgem to seriously consider the potential impact on supply competition and market liquidity as a result of any changes to arrangements.

### Obligations

For example if Ofgem were to place obligations on suppliers to secure long-term flexibility within gas supply contracts then this would clearly favour larger suppliers that have pre-existing contracts in place and/or ownership in assets capable of providing such flexibility. Smaller suppliers would be unlikely to have the sufficient market power to obtain flexibility under the same terms and at the same price as a larger more integrated market participant.

The costs of any such obligation would ultimately be paid for by customers. It is important therefore that the cost of such obligations is recognised and balanced against any benefit that they provide.

It may also be worth considering whether obligations should only be considered for suppliers that have larger portfolios whose imbalance could have a significant impact on the network health.

### Demand Side Tools

One area where there is clearly room for improvement in the current arrangements is the area of demand side reduction. The current firm load shedding arrangements effectively force demand side reduction on, what is likely to be, a small number of large I&C customers for the benefit of priority domestic customers.

It would appear that the use of voluntary demand-side tools prior to this situation as the system approaches an emergency situation would offer an opportunity for these larger customers, who would be otherwise cut-off at a later stage, to benefit by volunteering to reduce or curtail their usage.



CE believes Ofgem should seriously consider the creation of an industry-wide demand reduction scheme/market which could be used by the system operator and/or suppliers in supply deficit emergencies. It would be possible to develop such a scheme with a locational functionality which could be used for both supply deficit emergency and transportation supply constraints.

### Conclusion

CE agrees that improvements could be made to the security of supply processes and to reduce the impact of emergency situations on customers affected. In particular CE believes there is significant merit in improving the options for demand-side response to be offered in a pre-emergency phase.

Increasing the value to customers of offering demand response and applying these costs to those customers protected by the response in a pre-emergency phase would reduce the likelihood of an emergency and provide the system operator with another pre-emergency option to maintain system integrity.

Overall CE does not favour supplier obligations of any type as it believes these will increase customer costs and damage the currently competitive supply and wholesale markets.

CE is open-minded on the subject of customer compensation. Costs need to be targeted on those customers that receive the benefit and those suppliers that are out of balance. Liability caps must be considered to avoid market failure.

Whatever solution is considered it is important that the improvement and impact can be tested and understood before implementation. This will also provide confidence in the efficacy and economy of the measures employed.

I trust these comments are helpful. If you have any queries regarding this response please contact Richard Street on 0208 632 8169.

Yours,

Richard Street\*  
Regulatory Affairs Manager  
Corona Energy

\*please note as this letter has been delivered electronically a signature will not be attached