

Gas Security of Supply Significant Code Review

This submission is made by the Food and Drink Federation, the trade association for food and drink manufacturing. Food and drink is the largest manufacturing sector in the UK (about 15% of total manufacturing output) turning over almost £73bn per annum; creating GVA of around £22bn; employing around 440,000 people; and contributing around 2% of the UK's total GDP.

The sector comprised some 7000 enterprises which between them consume over 24 TWh (820 Million Therms) of gas per annum. Within FDF membership 99% of sites use more than 25,000 Therms/annum accounting for over 95% of output. We estimate that only around 30-40 sites have current interruptible contracts that will end later this year.

It goes without saying that security of gas supply is vital to the operations of our sector and that any wide scale or prolonged disruption to gas supplies would result in an immediate and major disruption to the UK's food supplies.

We recognise that avoiding gas supply emergencies is the primary objective of the exercise. We also recognise that the scenario of a major gas emergency leading to the disconnection of firm loads as not arisen in the UK to date so the current consultation is addressing a situation that is 'low probability' but 'major impact' – particularly in terms of the continuity of operations and the immediate and consequential financial impact on our members. .

We also recognise and welcome the benefits of market changes in recent years such as a widening the supply base for UK gas supplies (following the decline of UKCS production), the greater transparency of market information and the introduction of mechanisms such as GBAs have had in ensuring continued gas supplies into the UK to meet demand.

We understand that the market reforms to end the current interruptible regime and replace them with bilateral arrangements between network operators and large consumers is aimed at managing distribution network constraints rather than addressing commodity supply constraints. As a consequence the new arrangements will only cover a fraction of the supply currently available to be interrupted and will only be set up to address particular network constraint issues rather than to address overall market supply.

However, the current ability to interrupt larger consumers has provided the option for supply/demand management in the event of an emergency. Here we are thinking about slow onset emergencies due to, say, a prolonged cold winter, global supply constraints etc. as opposed to a more immediate emergency which we suspect would lead to disconnections right across the network irrespective of customer size or any contractual arrangements.

As Ofgem recognise in the consultation the option to cut supplies to firm gas customers will provide a service to shippers at zero cost that will be considered, amongst other options, in the run up to a developing emergency. As we understand the basis of the discussion, if a penalty were applied if supplies to firm gas consumers were cut this would provide a financial signal to take action to avoid the emergency developing in the first place.

As a concept we would not disagree with the proposition, however:

- Compensation is only payable after an emergency and such payments would not prevent the emergency happening in the first place.
- We recognise the difficulty in striking the balance between valuing a service (free interruption) against the interest's of consumers (i.e. compensation in the event of supply disconnection) for what is a very low probability gas emergency event.
- How to value compensation is fraught with difficulty - particularly if consequential losses were taken into account. However, as we are talking about very low probability events a high value of proposed compensation could unnecessarily impact gas prices in the long run as suppliers take actions to avoid a gas emergency occurring.
- We feel that Ofgem could further explore options to provide financial signals pre emergency rather than focussing on what to compensate post emergency. One option could be some form of ongoing payment/discount to larger firm consumers who would be prioritised by shippers for disconnection in the event of an emergency - a 'supply security interruptible contact' not totally dissimilar to the current regime. This could also potentially extend beyond the current scope of the current interruptible regime.
- We would also like to see further prioritisation based on essential services (bread, milk, and sanitary products etc.) that need to be maintained in the event of an emergency. We have recently raised these issues under the Gas Priority User Arrangements in conversations with DECC.
- Any change that puts a financial value on the ability to interrupt will have an impact on gas prices. So any proposals will have to be backed by a very robust impact assessment that fully takes into account alternative approaches to supply security and be fully commensurate with the perceived level of risk of such an event occurring.

We are, of course, available for further dialogue on these points and note there will be further consultation in May/June on your Draft Decision.

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