

Gas Security of Supply Significant Code Review (SCR) Initial Consultation Response

GrowHow UK Limited

The Key Issues at Stake

Within the context of this consultation we feel that there are a number of fundamental, contextual questions that must be considered and addressed if a workable solution is to be found with regard to SCR arrangements.

We welcome Ofgem's recognition that, whilst we have yet to endure such an emergency, the risk of this has increased and will continue to rise. Furthermore support Ofgem's recognition that forced firm load of industrials without compensation is

- a) a cross-subsidy to domestic load
- b) warrants compensation
- c) that further efforts should focus on preventing this scenario.

Rather than addressing the level of compensation that could and should be paid, the underlying objective of the arrangements needs to reduce the risk of a gas emergency back to the level it was before we became so dependent on LNG.

We believe the means by which this can be done, who will benefit, how much this would cost and who should pay for this needs also to be fully explored and elucidated.

GrowHow Background in the Context of SCR proposals

GrowHow is the last remaining fertiliser manufacturer in the UK and has a substantial industrial process chemical's business. Across our two sites, we use 1% of the gas consumed each day in the UK.

The ammonia plant is the most energy intensive part of our continuous process operation, and the plant upon which all our production activity is centred. Our sites run 24 hours a day, 365 days a year. The ammonia plants are only shut down biennially for maintenance. These are complex top tier Comah sites with ammonia plants operating at very high temperatures and pressures. Starting up an ammonia plant up takes up to 3 days. The cost of the gas alone to start one up is in excess of £500,000. In the light of this, it is understandable why our business model (and that of all fertiliser manufacturers across the globe) is predicated on maximising production throughout the year.

There appears to be some misunderstanding about the availability of alternative fuel options for industry. For us, there is no economic alternative to the use of gas as feedstock within our process. Given the complexity of the design of an ammonia plant, the temperatures and pressures at which they operate, our plants cannot readily be modified to switch fuel sources. There are a wide number of means by which electricity can be generated; gas should be production processes where no viable alternative feedstock is available. 48% of the world's population are dependent on mineral fertiliser for their food. According to the government's Chief Scientist, John Beddington, food security, like energy security is a huge issue for the future.

Given the size of our gas usage, we recognise that we will become increasingly vulnerable to shouldering the impact of an impending gas emergency. VoLL is impossible for us to calculate and quantify in reality. These assets are fundamentally designed to be operated continuously; shutting them down and starting them up puts unnecessary strain on them. In real terms is not possible for us to continue to operate a viable ongoing business (on top tier Comah sites) if we have to regularly start up and shutdown our ammonia plants.

We are, however, able to turn these ammonia plants down. 20% of our gas usage could be reduced (a substantial volume) without causing long term damage to the plants.

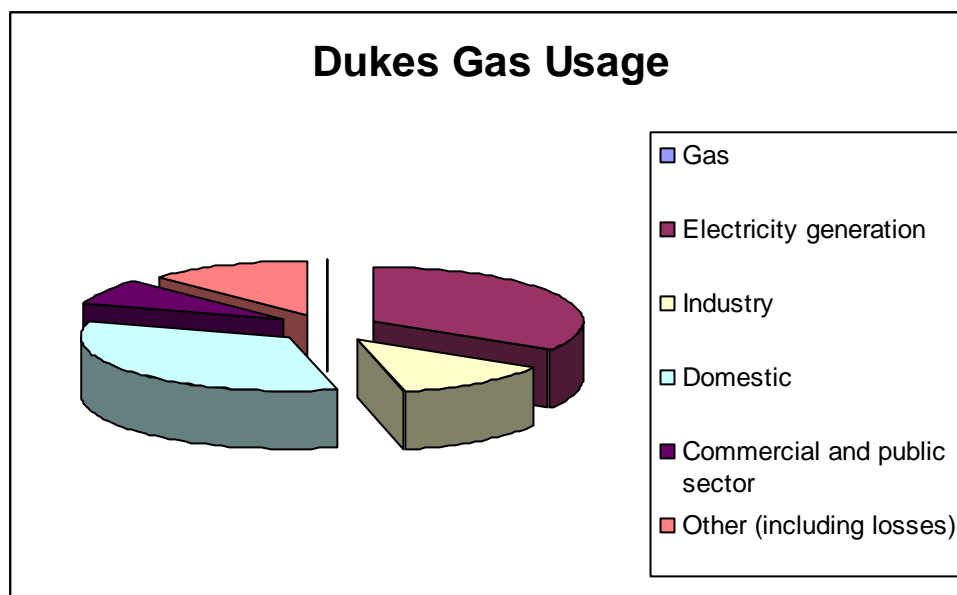
Deborah Pritchard Jones

22nd February 2011

The Impact on Manufacturing and the Efficacy of the Proposals

Unfortunately, the expectation is that the burden of shouldering a solution will rest with the manufacturing sector. For the large gas users within the sector to act as insurer of last resort to the rest of the industry is both ineffectual and disproportionate.

- a) The efficacy of a solution predicated on expediting a demand side response from only 12% of gas users will, by its nature, be limited. Opportunities for a demand side response from other gas users (specifically gas generators as well as retail, commercial and government users) should be considered as well as industrial users. This will ensure that the impact is both more balanced and the arrangements more effective.
- b) Given that the objective is to ensure that the domestic sector remains unaffected, we believe that the cost of preventing a gas emergency has to be assessed more broadly and placed at the point of benefit.



The Need for Obligations

As an overarching principle we agree that obligations on suppliers are critical to prevent a gas emergency. The UK clearly requires more storage as its own gas reserves diminish. Despite the bullish figures quoted by DECC in 2009, there is still only 907 MCM currently under construction and our storage provision remains vastly out of step with that of our neighbours in Germany and France.

There is no real incentive for the market to provide this storage as it mitigates price volatility and detrimentally impacts margin. We would concur that the government needs to intercede to encourage development of new storage. We have always favoured an obligation on gas suppliers to the domestic sector to hold the required level of storage that can be used in an emergency, funded by a small tax on gas to raise funds to 'seed' investment. (0.5p/therm p.a. would raise £175 million p.a.).

Ofgem's Specific Options

Taking the aforementioned into account, we would make the following comments on the Ofgem proposals:

1. *Dynamic Cash Out*

As a principle we would agree that consumer outcomes can potentially be distorted in an

emergency and thus it seems sensible not to freeze prices in an emergency.

2. *VoLL*

The value of lost load is very complex and different for each large industrial gas user, depending on what they make, how they make it and the way in which their plant is configured. Putting a figure on these for GrowHow is difficult as it goes to the very heart of our viability as a business.

It is hard to see how it is possible to have VoLL settings that are not differentiated or that are layered in terms of cost to the business. The cost of turning off the first 20% of our usage is very different from the next 10%. The remaining 70% is the most expensive for us and it is at this point that our ongoing viability becomes questionable.