Response to: Gas Security of Supply Significant Code Review (Gas SCR)

September 2013

British Glass Manufacturers' Confederation represents the glass supply chain in the UK. All large glass manufacturers in the UK require secure and continuous supply of gas for glass furnaces and support every effort to increase gas security in the UK.

Some glass sites are equipped with back-up facilities in case of an emergency gas shortage, however there exists a range of provision capability and limits involving timescales and permitting complications in the event of switching which means that each glass sector site is in a different position with regards to tendering in a demand side response auction. This response represents the common ground between glass manufacturers.

CHAPTER Two – Rationale for the Tender

Question 1: What are your views on a SO-run DSR tender? Do you think it is an appropriate addition to the Gas SCR?

It seems appropriate for the systems operator to run the DSR tender.
Opportunity to be compensated for DSR is welcomed.

Question 2: What do you think the purpose of the tender should be?

The primary reason, as set out by Ofgem, would be to get a realistic price for industrial VOLL. Additionally, the tender process is likely to identify potential load available to be shed (inform capacity margin) and by doing so it would be ideally hoped that those who would incur significant costs if supply was lost would be last to be load shed in a GDE.

Question 3: What benefits do you see a DSR tender providing?

The main benefit would be to receive some meaningful compensation in the event that supply is disrupted which is preferable to the current situation. The tender will allow those who are able to easily shed load to do so first and be compensated at an agreed rate.

Question 4: What costs do you see arising from a DSR tender?

There will naturally be administrative time required to put together a tender bid and understanding options and in deciding strategy.

There is a fear that administrative costs on the part of the supplier would also be passed on to consumer. It is also likely that gas prices will reflect the potential pay outs promised by shippers to those who have agreed to honour tender bids.

In the case that back-up is required to fulfil the obligation on the user side, there will be associated costs involved in retaining the facility.

Ultimately it is likely that loss of supply would cause costs to the user in excess of compensation.

Question 5: Do you think a DSR tender should have a role subsidising investment in back-up facilities? If so, why?

Yes. Having a volume of industry which could switch onto back-up fuel in the case of a GDE would be a potential solution to a gas supply shortage and this would benefit the other gas users.

CHAPTER Three - Key Design Issues

Question 1: What do you see as the key design issues for the high level design of a DSR tender? Are there any we have not included here?

No comment

Question 2: What are your views on having variable option fees in the tender? Do you have any concerns about the costs that these could impose irrespective of a GDE actually occurring? How should these be funded?

Variable option fees are of interest to the glass sector. Whilst there are concerns about price increases which may result, a financial incentive to maintain back-up would be welcome.

Question 3: What are your views on the eligibility of gas-fired power stations? How should the interactions with the electricity market be managed?

No comment

Question 4: Could participation of gas-fired power stations have a negative impact on the tender, or on the gas market as whole? If so, can you suggest any steps that could be taken, or an alternative mechanism that could be created, that would help mitigate these concerns?

Our only comment would be that glass factories are unlikely to be able to compete with gas-fired power stations in a tender process.

Question 5: Do you have any views on what consumers whose bids were unsuccessful should be paid if they are firm-load shed?

It is difficult to see how any value could be arrived at, except the domestic VoLL: £14/therm

Question 6: What are your views on the response type the tender should contract for?

There is preference to specify the amount of load to be retained rather than the amount of load to be shed.

Question 7: What are your views on a minimum volume threshold? Do you have any ideas on how this could be set? Should there be a limit on the number or size of tranches that consumers can bid?

The view is that there should be no minimum volume threshold or any limit on the number or size of tranches to be bid.

Question 8: What is your preferred length of time and/or frequency with which NGG may exercise a DSR contract? Do you have a preferred minimum response time if a DSR contract were to include one?

The maximum is likely to be seven days and the preferred minimum time would be 24 hours. Shorter time periods may be available but these would need to be negotiated on a case by case basis.

Question 9: Do you have any views on any other tender design issues?

No comment

CHAPTER Four - Current Options - the "Straw Men"

Question 1: What are your views on the three straw men?

No comment

Question 2: Do you think a price cap is necessary to limit shipper liabilities?

Yes. If there is no price cap then we may see unlimited rise in price.

Question 3: Do you have any suggestions for how the volume cap in straw man 2 or 3 should be set?

No comment

Question 4: Do you think the volume cap in straw man 2 or 3 is sufficient to prevent inefficiently high DSR bids from being accepted?

No comment

Question 5: Do you have any views on whether or not straw man 2 should be paid-as-bid?

It is thought that there would be more certainty associated with the pay as bid option.

Question 6: Do you have any ideas for how a fixed budget for straw man 3 could be set?

No comment

Question 7: Should any volume cap or fixed budget be known to the market ex ante?

No comment

Question 8: What do you think of the rationale for having fixed option fees in straw man 3? Why might they be necessary to ensure sufficient participation and competitive bidding?

Fixed option fees allow the user to have certainty over the amount of compensation that will be received. This is more likely to attract bidders.

Question 9: How could the fixed option fees could be determined?

These should be negotiated within individual contracts.

Question 10: Do you have an alternative design package that you think better meets the aims of the DSR tender than the three set out here?

No comment

End

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Contact: Jenni Staves j.staves@britglass.co.uk