Saint-Gobain Consultation Response
Gas Security of Supply Significant Code Review – Demand-Side Response Tender
23rd September 2013

Introduction

As the world leader in designing, manufacturing and distributing construction materials, Saint-Gobain is committed to meeting some of the fundamental challenges faced by the world today: reducing energy consumption, limiting our impact on the environment, and creating a new generation of buildings which are safe, comfortable and energy efficient. It employs over 193,000 people, 16,750 of which are in the UK and Ireland, and operates in 64 countries.

Globally Saint-Gobain spends over £350 million every year on R&D and its network of R&D centres employ 3500 researchers.

In the UK and Ireland, some of the best known and respected brands in the construction sector are part of the Group, including British Gypsum, Saint-Gobain Isover, Weber, Celotex, Saint-Gobain Glass, Glassolutions, Saint-Gobain PAM, Ecophon, Jewson, Graham and International Timber. The comprehensive product range spans glass and glazing products, building insulation (exterior, cavity, loft and internal wall), timber products, plasterboard and drylining systems, photovoltaic glass, architectural solar and safety window films, water supply systems, solar solutions and many other building products. They operate from a network of over 1000 distribution sites and 80 manufacturing plants. Together they offer a range of high performance energy-saving products and solutions to help create a more sustainable built environment.

The response below is being submitted on behalf of all Saint-Gobain businesses in the UK associated with construction.

Response

<u>Chapter Two</u>

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

A1. Saint-Gobain believes it is appropriate for the System Operator to run a DSR tender.

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

A2. We believe the purpose should be to identify the amount of gas that can be shed during a GDE.

Also, to calculate the price level of VoLL at industrial level, and to compensate those sites with the ability to shed load.

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

A3. It should allow those who are available to reduce load to give a value to, and to be compensated for the consequences of losing gas.

It gives the SO the ability to reduce demand in an emergency, and could therefore reduce the intensity and duration of the situation.

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

A4. There will be administration costs of running the tender and potential 'option' costs if an 'option and exercise' plan is selected.

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

A5. No comment

Chapter Three

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?

A1. 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?

A2. Variable option fees were available in the old interruptible regime, and we believe they should be included in this new system. They will enable the maintenance of back up supplies.

Consumers who are putting their demand at the disposal of the SO should be compensated for doing so, and the option should be paid via reduced transmission charges. Sites opting not to take part in the tender should be required to pay for this via a (small) increase in their transmission costs.

As the likelihood of a GDE occurring is slight, these option payments should only be small to reflect the chance of being interrupted.

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

A3. 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?

A4. It is unlikely that most industrial customers would be able to compete in a tender with any gas fired generator. Perhaps there should be a separate tender for gas fired power stations alone. If sufficient gas was available via the generators it may preclude the need for an I&C DSR tender.

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

A5. In certain sectors (eg Glass) there could be catastrophic costs associated with sustained loss of gas and these customers will necessarily have to bid a high price in order to 'go to the bottom of the list' for interruptions. It is therefore unlikely that their bids will be accepted.

In the event that these customers were interrupted we believe they should still be compensated at a reasonable level – after all these are the players who have most to lose. In this instance perhaps the level of domestic VoLL of £14/therm should be the floor price for compensation.

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

A6. Option and exercise. We would like to be able to specify the minimum volume of gas to be retained for use, rather than specifying the volume to be reduced.

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?

A7. Minimum volumes should be set by the SO, so that the DSR is manageable and safe to operate at least cost.

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?

A8. Bearing in mind that this contract would only be exercised in an emergency, response times will necessarily be short. In order to be managed properly we would prefer response time to be in excess of 4 hours. Shorter lead times may lead to higher option and exercise bids.

There is a substantial difference between bidding to reduce demand for a short period (eg half a day or less), to reducing for several days. Will there be the option to bid at more than one price?

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

Our only comment on the design would be the need to keep the time between the auction and the gas year to which the auction applies to be very short in order to keep forecasting realistic.

Chapter 4

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

A1. We support Straw Man 3, as it includes an option fee.

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

A2. Unsure – we believe that shippers' liability should not be capped, but there is a high risk that any potentially high and unlimited costs will be passed back to customers even without the GDE occurring.

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

A3. 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?

A4. No comment

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

A5. The only benefit to pay-as-bid is certainty of the fees during a GDE.

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

A6. The budget should be for volume and not price.

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

A7. 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?

A8. It is already accepted that a GDE is an extreme event. Without a fixed option fee, there is the potential that customers will be bidding every year for something that will in all probability not happen. In this situation customers may be dis-incentivised to continue bidding and the value of the DSR will be lost.

A fixed option fee will attract bidders and will help them to fund alternative fuel back-up facilities.

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

A9. They should be negotiated individually in commercial agreements.

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?

A10. No comment

Further Information

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