corus

Modification Proposal 90: Revised DN Interruption Arrangements (Against)

- Thank you for the opportunity to comment on this proposal. We are unable to support the modification as it is unclear if the outcome from these theoretical proposals would be in Corus' interests.

- In our view, customers would be better served by a move away from a one size fits all approach but this should be balanced with the benefits of the current administered scheme which is simple and practical. Those Corus sites with interruptible gas status, have embedded procedures for interruption into their site operations and the financial and reputational implications of failing to interrupt are well understood. However, incentives on end users to maintain interruptible status have eroded over time. This is partly because of the decreasing proportion transportation costs account for in the 'all-in' energy charge, and because transportation discounts have been based on a non-cost reflective capacity:commodity split.

  We note Ofgem have acknowledged the imbalance in distribution charges, but are disappointed this will not be corrected until interruption reform is concluded. The derisory discount for 45 day interruption rights, together with the environmental and COMAH burden of maintaining back up plant has therefore dampened the incentive to continue interruptible supply status for some Corus plants. Since 2003, Corus' annual natural gas imports have moved from a ratio of c. 50:50 firm:interruptible to 80:20 for gas year 06/07.

- Whilst we believe reform is appropriate, we are concerned the current proposals remove choice of supply status from end users, and suggest a complex method of tendering for a 3 year ahead commitment. This is outside of the natural term of our physical supply contracts.

  We are unable to make an informed decision on the merits of this tender proposal. We have not seen quantitative analysis from DN's on the level of interruptible capacity required to support a 1 in 20 peak day (including clarity on the level of excess interruption operating within each network), confirmation of the granularity of the zonal tender, the associated charging methodologies and the cost to each DN of 100% firm supply.

  We agree the full opportunity cost of interruption is not reflected in current transportation discounts but tendering at a 3 year ahead stage is unlikely to achieve this, as with most UK manufacturers we operate in a competitive global market and are unlikely to be in a position to accurately commit to requirements and opportunity cost that far ahead.

- We would also need to be assured that change would not deteriorate wider security of supply. This is the direct concern of HSE/NEC, but this issue has <u>overriding</u> importance for the balance of Corus gas load. We are a user of natural gas in 4 distribution networks - in the event any supply or capacity shortage escalating to forced firm load shedding, Corus would be one the first users to be cut, risking plant and the commercial viability of our UK operations. Current interruptible flexibility provides an additional buffer before forced firm load shedding.

  Interruptible fuel flexibility also provides the means of taking advantage of any commercial opportunities in case of supply/demand imbalance during winter price peaks. However, this is not core to our business planning and the viability of our remaining back up plant cannot be guaranteed if insufficient incentives are provided to maintain these facilities; without such incentives it would be inappropriate for end users to gold plate their own processes and introduce additional safety risk onto our plants when regulated 1 in 20 obligations should make this unnecessary.

- We therefore look forward to the provision of quantitative analysis to support any further proposals. This will enable debate and decision-making to move past the merely theoretical.

  Corus Energy Supplies