

## **Consultation on Proposals to Update the Gas Priority User Arrangements**

### **Response from the Food and Drink Federation**

#### **Introduction**

The Food and Drink Federation (FDF) represents the interest of the UK food and drink manufacturing industry. FDF represents all types of companies, from large international food and drink manufacturers through to smaller independent companies.

The food and drink manufacturing industry plays a leading role in the UK economy. Over the last decade it has been the largest manufacturing sector with a turnover of over £70bn; in 2005 UK food and drink exports totalled nearly £9.9bn and imports £23.3bn. The industry employs some 0.5 million people directly, 3.4 million when taking into account the whole food chain and ancillary industries.

The industry uses energy totalling some 44.8 TWh making it the 2nd largest in the industrial sector in terms of energy usage accounting for 11.3% of industrial energy consumption.

The Food and Drink Federation welcomes the opportunity to respond to DTI's consultation on Proposals to update the gas priority user arrangements.

#### **Question 1: Updating current priority A and B lists**

Within the FDF Climate Change Agreement there are currently 1007 sites. The manufacturing output of these sites is around 35 million tonnes of food and drink per annum. This covers a number of major sub sectors within the industry including baking, milling, cereals, tea and coffee, canned goods, starches, sugar, oils and fats, pet foods, soft drinks, frozen and chilled vegetables, ready meals, snack foods, confectionary, pasta, rice, baby and infant foods and significant parts of the meat and fish industries and alcoholic drinks.

Of the 1007 sites 798 use gas. Their annual consumption is around 505 million Therms. (The total food and drink manufacturing sector uses around 1,000 million Therms per annum the difference is made up from other sectors with their own CCA e.g. dairy, brewing, distilling etc and significant parts of the sugar industry).

Of the 798 sites, 649 use more than 25k Therms per annum accounting for 99% of the 505 million Therms and over 95% of the production output.

FDF does not hold definitive information of how many of these sites are on interruptible gas contracts though we do know that the number is relatively small at around 30-40 sites maximum. Typically these sites only hold a few days oil stocks so continued production without access to gas would be dependent on ongoing oil

deliveries. It is worth noting in that in the industrial bread baking sector, ovens can only run on gas.

It is quite clear from these facts that if gas supplies to the industry were disrupted there would be an immediate and major disruption to the UK's food supplies.

Most manufacturers operate "Just in Time" production and distribution regimes often manufacturing to order for immediate delivery to the retail/catering sectors. Shortages of product on supermarket shelves would therefore become immediately apparent. This is especially true for short shelf life products like bread and fresh chilled meals. For the former there is usually less than 24 hours stock within the distribution system at any one time. It is not difficult to imagine that such a scenario would at best induce the public to hoard and at worst panic buy. This could occur across all products especially staples such as bread, pasta, tea/coffee, canned and bottled goods, bottled water, frozen produce, baby and infant food etc. The social and political consequences of such a scenario do not need to be pointed out.

The importance of food is specifically addressed in the Civil Contingencies Act (2004) which states that "An emergency is an event or situation which threatens serious damage to human welfare"...."disruption to a supply of: money, food, water, energy, fuel, communications or transport". Clearly it is important that in developing and revising arrangements for one issue – in this case energy (gas) supplies – should not jeopardise arrangements for another i.e. food.

There are two broad types of emergencies. Firstly, those that occur as the result of an unexpected event such as explosion/bombing etc. which could cause an immediate disruption of gas to a region affecting all gas consumers irrespective of gas priority status. The second, which the Civil Contingencies Act addresses, is the impact of 'slow onset' emergencies. The most likely case in point here being a prolonged period of very high gas demand during a very cold period possibly exacerbated by gas supply disruptions (non availability of interconnector imports, storage problems etc.). These emergencies are more likely to be national in impact and would build over a period of time. It is in this scenario that FDF believes that changes need to be made to the gas contingency arrangements in order to ensure ongoing production and distribution of vital food supplies.

There are number of options as how this could be addressed.

#### Option 1

All food and drink manufacturing sites using over 25k Therms should be designated Category A – or Category B if they have alternative fuel supplies.

This has the advantage of simplicity and the use of the sector CCA databases would allow the sites to be easily identified. It also has the advantage of addressing intra sector supply dependency as many manufacturing operations are dependent upon production from other food manufacturers in other sectors. Examples are the industrial bakeries dependence upon the milling and bakery ingredients sectors and the chilled food sectors dependence on meat, fish, vegetable, dairy, oils, starch etc.

This point can be further extended to cover other essential supplies that are needed to ensure continued food manufacturing – the main one being food packaging manufacturers which is essential for ensuring food safety and hygiene and for onward distribution. This inevitably means that such packaging manufacturers in the packaging/plastics/metals/paper/glass industries would also need to be designated priority gas consumers.

We acknowledge that such a move would have important consequences for the determination of gas storage safety monitor levels which, if increased significantly, could lead to the perverse impact of making the onset of a gas supply emergency more likely.

### Option 2

Prioritise specific key sectors such as bread baking, baby and infant food, meals, dry goods, canned goods etc. into Category A or B. This would reduce the number of sites on the lists and hence the level of gas demand that would need to be safeguarded. The major disadvantage would be the need to address the supplier relationships within the industry to ensure that such sites could continue to manufacture. For example if you prioritise Bakery A you would also need to prioritise Flour Mill B, Ingredients C and Packaging D.

### Option 3

Prioritise food and drink manufacturers within the >25k Therms firm gas sector. It is our understanding that in the event of a gas emergency where firm gas demand needs to be reduced, distributors will contact the largest firm gas users first and then work their way down the list without any prioritisation for essential sectors. The gas distributors could establish a priority list within this sector in order to protect food and drink manufacturers for as long as possible during the onset of an emergency. A similar regime already exists within the electricity sector through the operation of the 'f list' to give priority to food and drink manufacturers during period of electricity supply disruption.

The advantage of this approach is that it does not affect gas safety monitors, the disadvantage is that food and drink production is not protected by these monitors!

### Option 4

Various combinations of 1, 2 and 3 could be considered.

### Option 5

No change to current arrangements and hope we don't have a gas emergency in the future.

It is quite clear that the above options raise more questions than they answer and that a further level of potentially quite detailed analysis will be required in order to identify a suitable change to current arrangements that balances potential risk against the consequences of re-categorising such a large and important sector as food and drink manufacturing within the gas contingency arrangements.

As a way forward FDF would propose that a meeting be convened between ourselves, other key industry payers such as Dairy UK and BRC, Defra Food and Drink Industry Division, the Defra and Cabinet Office Contingency Planning functions, DTI and National Grid. The aim would be to obtain a consensus on the impact and consequences of gas disruptions on the food and drink manufacturing industry and debate some of the points raised in this response. Key amongst which are:

- To understand the impact and consequences on safety monitors if all/some food and drink manufacturers are placed in Category A or B.
- Further debate on which sub sectors within the overall sector are 'essential' if only part of the industry are to be re-categorised.
- To gain a better understanding of winter period gas demand by sub sector.
- To gain a better understanding of the supply interdependencies within the industry - including packaging.
- To discuss the practicalities of introducing additional prioritisation within the firm gas load sector.

If you require further clarification of the points made in this response please don't hesitate to contact us.

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