Major Energy Users' Council
THE UTILITY CONSUMER NETWORK & LOBBY

PO Box 30
London W5 3ZT
www.meuc.co.uk
enquiries@meuc.co.uk
Telephone
020 8997 3854
020 8997 2561

Department of Energy & Climate Change
3 Whitehall Place
London SW1A 2AW
Email: EMR-condoc@decc.gsi.gov

10th March 2011

Dear Sirs

Response to the Electricity Market Reform Consultation

I am writing to you on behalf of the Major Energy Users Council (MEUC) in response to the consultation on the proposed reform of the Electricity Market Reform (EMR) Consultation.

As you will be aware MEUC is an independent body representing the interests of a large number of industrial, commercial, retail and public sector organisations for which the use of electricity and gas are significant factors in their operations. Its principal objectives are to keep members informed of developments within the industry and reflect their views and lobby government and regulatory bodies where appropriate.

We acknowledge the objectives of the EMR and the drive for a low carbon economy. We also accept the requirement for very significant investment over the decades to come. Our members will be contributing 20% of the tax being raised through the CRC Energy Efficiency Scheme.

We have held a special meeting on the proposals, at which a DECC official was present, gathered members' views and circulated this response for comment before submission. We believe the points below broadly reflect their views. First and foremost our members are deeply concerned over the underlying assumption that customers will be able and willing to shoulder all the costs associated with the long term contracts proposed.

The need to invest

We acknowledge that it is essential to get ahead with nuclear investment – but nuclear has always been a special case. We must not sacrifice 20 years of shaping a competitive market and exclude options that will allow it. The government has set itself on the path of "no subsidy" for nuclear build and yet it seems quite acceptable to provide government financing in other areas (strategic rail and defence investment for instance). That option should not be excluded where it can be seen to be the most cost effective.

What nuclear investment needs is a framework for rigorous scrutiny which feed in tariffs and contracts for difference will not provide. The EMR consultation acknowledges that the precise nature of the proposed FITs are uncertain and various models remain under consideration.

If the government remains minded to continue on the path of feed in tariffs we request that there is consumer representation throughout the process to determine the most efficient and least costly for consumers.

DECC acknowledges that margins will be tight during the 2020s and that 25GW of nuclear should be on stream by 2025. We believe that as things stand this figure could be as low as 13GW and will do little more than replace the capacity of existing stock. This point was made by The Institution of Mechanical Engineers in a comprehensive report published last year.

Edf was invited to purchase the British Energy nuclear fleet on the expectation that new plant would be built. If a reasonable programme of replacement is not forthcoming other international energy companies should be incentivised to invest and if necessary Edf forced to divest sites.

Further investment in CCGT plant will be necessary to meet our 2020 targets to bide us over until sufficient nuclear comes on stream. We also believe that gas has a long term strategic role to play in providing a mixed energy resource base in power generation and the stated aim to withdraw it from the fuels mix by 2030 is unhelpful to future investment.

Moreover the EMR reforms as proposed will discourage investment in CHP on account of the higher taxes to be levied on it.

Off shore wind is a particular concern of ours because of its costs (direct and indirect). Little has been said about the ability of NGC to balance a grid system with 30% of our electricity coming from wind. The need for back up supplies at a time where there is a lack of wind is well understood. Last summer we had the experience of wind generation being constrained off and compensation being paid to the wind operator. Some experts have predicted generation from wind much above 10% is problematic. We won't have the luxury of sufficient interconnector capacity for many years, if at all.

We appreciate that it is impractical to suggest that there should be a moratorium on further development but we do believe there should be a more open analysis of the technical and economic effects. We have not seen a formal impact assessment for the EMR and these issues relating to it and request that one be made available for scrutiny.

Feed in Tariffs and Capacity Payments are not necessary

DECC tells us that the proposals for feed in tariffs and capacity payments are the most cost effective option. We doubt this. Gas is a cheap (premium) fuel available in abundant quantities. Investment in CCGT and OCGT to meet our 2020 targets to bide us over until sufficient nuclear comes on stream should be encouraged.

Furthermore is it really reasonable to assume that Government will be able to negotiate the best deal for capacity payments when experience has shown over many years that long term contracts frequently go wrong? There are many unhappy examples of Government contracts falling into this category. Two recent examples are the Defence Ministry procurement shambles and hundreds of £millions wasted on out of control PFI contracts.

The levels of existing feed in tariffs are already under review and the RO is due to be scrapped – proof if proof be needed of the difficulty in getting things right first time.

Loss of Competitive Market

We are disappointed that "competitive energy supplies" appear no longer to be on the Government's agenda and has been replaced by the meaningless term "affordability".

Businesses need to have a level playing field to survive in international markets. Unilateral action is high risk. After many years taking a positive role in improving our links with Europe we had the expectation that the third package would provide an opportunity for a true trans-national competitive market within Europe at least.

Long term pre agreed FIT and CfDs will bring an end to a competitive market and market prices will inevitably rise to meet the managed price levels.

We seem to be turning our backs on everything achieved for a managed market. We are already at the top of the league as far as environmental taxes are concerned and putting cheap forms of energy, particularly gas, at a disadvantage is just adding to costs.

Demand Side Contribution

We support the DECC's view that a contribution from the demand side may be critical and would welcome an opportunity to take matters forward with you.

What is currently available to major electricity consumers to load manage fails to take account of the true costs and disruption to production and sales runs and processes. This is one reason why take up has been limited. Demand side management and permanent capacity reduction should be rewarded at the same level as the subsidy being offered to renewable generation.

In conclusion we understand and appreciate the Government's commitment to climate change and the benefits that a reduction in worldwide emissions will be for mankind. We fear that the effects on UK businesses in achieving the necessary results will hasten its decline.

We very much hope that our comments are helpful and would welcome an opportunity to meet to discuss our views in more detail.

[redacted]

[redacted]