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Dear Sirs

Electricity Market Reform Consultation Document

Blizzard Utilities is a leading consultancy assisting customers in the public and private sectors in the purchasing and management of their utilities. Blizzard manages an annual spend of around £260 million.

I am writing on behalf of our clients in response to your consultation on the proposed reforms to the United Kingdom electricity market.

Blizzard applauds the Governments drive towards making the UK a low carbon economy. Whilst we agree that the current market will not support investment in new generation and therefore will continue to build barriers to new entrants, we are not sure that Government thinking is on the right track?

Current Market Arrangements

Blizzard understands that to cut the GHG emissions the UK needs to move towards low carbon solutions in power generation, but is wind power, wave power and solar the sole answers? The UK cannot ignore nuclear power; it is still a low carbon option. Further, the UK must also embrace new technology which will provide us with a smart delivery network. In addition we would also advocate the early introduction of smart metering down to a domestic level.

We agree with the documents assessment of future risks to the security of electricity supply. We believe that all the data used has been based upon recession figures, therefore, the impact of future demand when recovery takes place is a big unknown.

The UK is faced with diminishing offshore gas reserves and reduction in reserve power capacity as our generation fleet face:-

- Decommissioning of many power stations as they reach the end of their operational life span
- A large proportion of coal and oil fired generation plant will close as a result of new standards being introduced by the EU Large Combustion Plant Directive and Industrial Emissions Directive

We believe that the core issue is the generation mix; too much reliance on wind power to achieve the UK's emissions reduction targets could prove to be a mistake. Blizzard would advocate a mix of CCGT, nuclear and renewables such as wind, wave, solar and biomass. However, we would caution against increasing reliance on gas fired generation especially if the UK is unable to significantly increase gas storage volumes. Further we also have concerns over the new plant construction time lines, even if we start now, it could take up to 15 years before the first major generation plant is commissioned.

Feed-In Tariffs

We agree with the Government's assessment of the pros and cons of each of the Feed-In Tariff models detailed in the consultation. In addition we also agree with the Government's preferred policy of introducing a Contract for Difference FIT (FIT with CfD) as we believe that this will provide price certainty to the generators. We would prefer to see long term contracts such that constant change and or supplier gaming would be avoided.

However, the question is given rising price trends, at what point does the Government set the FIT and over what period?

The advantage of a FIT with CfD is that it will incentivise generators, but only if they are paid on output and not capacity, however it may not deliver the right signals which will deliver the right return on investment.

The main issues are:-

1. At what level are the FIT's set?
2. When should they be set?
3. For how long?
4. Who sets them?
5. Which indices are to be used UK or European?

Emission Performance Standards

Blizzard agrees with the Government's assessment of the impact of an emissions performance standard on the decarbonisation of the electricity sector and on security of supply. However, we would prefer that it is done in conjunction with what other EU countries have set in place.

We agree that the EPS should be aimed at new plant and "grandfathered" at the point of consent. However is its Government's responsibility to make the technical decision as to plant life? Does the Government have such expert knowledge?

Is EPS intended to prolong the life of higher carbon plant? Does this not contradict the Governments drive towards a low carbon economy?

Options for Market Efficiency and Security of Supply

We agree with the pros and cons of introducing a capacity mechanism. With a diverse generation mix, part of which is intermittent, needs some form of mechanism. We are also of the opinion that such a mechanism will encourage alternative technologies i.e. Electricity storage.

We would hope that the level of capacity payment would be based upon demonstratable facts, justifiable levels based upon actual delivery.

It is important to ensure that the payment is not set at a level that confuses the response from other areas i.e. energy efficiency, demand side response. Blizzard is concerned that that the capacity mechanism could send negative signals to the market.

We would like to see a combination of both mechanisms proposed in the document.

Whilst the Blizzard agrees that there must be some element of regionalisation but it must not adversely impact the end customer. We understand that it is important to encourage the building of new generation plant in all locations but not at the expense of the end customer.

Analysis of Packages

The Blizzard does agree with the Government's preferred package of options, but implementation is critical. But who will provide the governance, it must be independently provided. Our main concern is how it will impact the end customer. Further how will we know if the reforms adopted have been successful?

To achieve an element of success the Government must look at a more robust consumption reduction objective in the industrial, commercial and domestic sectors. In addition it must run in tandem with the reforms to the electricity market.

We would ask the Government to avoid duplication of competing taxes and levies if this reform is to be delivered at an acceptable cost to end customers.

Implementation Issues

Our view on the role that auctions and tenders can play in setting the price for the FIT is that we believe that there is insufficient competition in the current market to deliver a rate that will encourage new players into the market place.

Our experience of past auctions in the energy sector is that they have been very disappointing because of the general lack of competition.

We would prefer to see the adoption of the second option that all new renewable electricity capacity accrediting after the introduction of the low carbon support mechanism but before April 1st 2017 should have a choice between accrediting under the RO or the new mechanism.

We are of the opinion that none of the options stated meet the requirement that some technologies are not currently grandfathered under the RO. We would advocate that there should be no retrospective change and that there should be time limits set on the completion of new projects, with regular reviews being undertaken throughout.

Further we believe that when it comes to investment decisions the RO must underpin the return on investment,

Conclusions

As the champion of end customers, the bulk of which make up our membership we are concerned that it will be our members who will end up paying for this proposed reform. We feel that the bulk of the questions in the consultation document are aimed at suppliers and generators.

UK industry is under pressure both from the recession and from global competition. Any reforms that are proposed must ultimately have a benefit for the end customer if UK industry is to survive in the future. In addition, the Blizzard has been concerned about the security of the UK's electricity supply and we welcome a reform especially if it increases competition in supply.

We are aware that the Government needs to find investment in the modernisation of the wires in the UK and we hope that any market reform provides the incentive for investment.

In conclusion Blizzard Utilities would be please to participate in any future work group that DECC or Ofgem decide to convene.

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