



Major Energy Users' Council
THE UTILITY CONSUMER NETWORK & LOBBY

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1st October 2011

Dear Sirs

Response to Consultation on possible models for a Capacity Mechanism

I am writing to you on behalf of the Major Energy Users Council (MEUC) in response to the consultation on the proposed possible models for a Capacity Mechanism.

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 is a significant factor 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 and that there may be considerable security of supply challenges as a result. We have gathered members' views on the proposals from which it is clear that they are deeply concerned over the increasing cost of energy. We believe our brief comments reflect their concerns particularly those who experienced the electricity pool prior to its replacement by NETA in 2000.

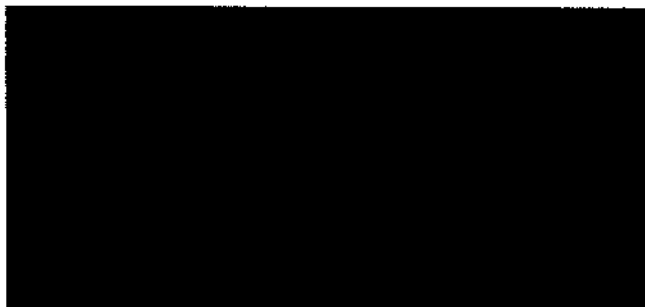
The Impact Assessment with the Consultation provided data (Redpoint Table 22) which purports to show that average bills will be unaffected or might even be reduced by a capacity mechanism. Data to support this table has not been published as far as we are aware.

We argued against capacity payments in the EMR consultation. We have a considerable surplus of capacity at this time and the priority should be to make use of the Strategic Reserve option. Gas is a cheap (premium) fuel available in abundant quantities. There has been considerable investment in gas powered generation over the past decade and more is in the pipeline. There is every reason to suppose that there will be enough to meet our 2020 targets and to bide us over until sufficient nuclear comes on stream and that the current market is placed to deliver the investment required.

As a result we continue to question the logic that either of the market wide capacity payments proposals would be capable of providing the investment incentive needed although we appreciate that when the 2020 target of renewables is reached the arguments may change. The reality is however that we haven't yet reached our 2010 target making it increasingly unlikely that the 2020 target can be achieved until well into the next decade.

We appreciate that it is impractical to suggest that there should be a moratorium on further development of the proposals but we do believe there should be a more open analysis of the technical and economic effects. The analysis should focus particularly on the costs for consumers and how the demand side may be able to play its part. DECC has an obligation to ensure that the most economically efficient solutions are adopted to achieve the government's goals to safeguard consumers, who will have to pay for the increased costs that result.

Yours faithfully

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Electricity Group Chairman
Major Energy Users' Council

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