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The Major Energy Users Council response to Non Domestic Consultation

The Major Energy Users Council would welcome an Ofgem review into the I&C Gas supply market particularly into two specific areas.

The first is the identical pricing methodology adopted by all suppliers when quoting for fixed price annual contracts. This methodology is Transportation pass through + a gas price linked to IPE/Heren/Spectron forward annual index + margin (usually less than 0.5%).

This leads to offers being open for a limited period due to changes in the forward index which is not believable due to its lack of liquidity.

In addition this methodology totally ignores the source from which the supplier obtains the gas.

Offshore producers frequently quote that 70% of their gas is sold under long term contracts and in fact only this week BP have shown a \$1.3 billion "loss" through not being able to exploit recent high gas prices because of their long term contracts.

The second source of gas used by suppliers is gas bought in summer and placed into storage.

Therefore very little of the gas quoted is actually bought in the forward market. When challenged all suppliers use the same argument of why should they sell the gas below the price they could get in the forward market, however everybody knows that if they were to place any reasonable volume of gas into the forward market the price would immediately collapse.

In addition the same suppliers are prepared to sell gas into the most volatile and unpredictable volume market (domestic) from the sources previously quoted thereby creating a considerable price differential.

Is the fact that no supplier will break with this pricing methodology cartel behaviour?

The second area we would suggest should be reviewed is the market share of the various suppliers in the different sectors of the market, interruptible, under and over 25,000 therms. Is the dominance of some players in the various sectors just sensible marketing strategy or has the market been "carved up?"

I hope this helps, if you require any further information please contact me.

Regards

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