Major Energy Users' Council
THE UTILITY CONSUMER NETWORK & LOBBY

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Dear Anjli

Significant Code Review – Demand Side Response Consultation

I am writing on behalf of the Major Energy Users' Council (MEUC) which is an independent consumer led body representing the interests of a large number of industrial, commercial, retail and public sector organisations and for which the use of electricity and gas is a significant factor in their operations' costs.

The Major Energy Users Council welcomes the SCR – DSR consultation being carried out by Ofgem and this opportunity of providing customers' views on the proposals.

CHAPTER: Two
Question 1: What are your views on a SO-run DSR tender? Do you think it is an appropriate addition to the Gas SCR?
Yes, this is a most welcome development of the SCR process.

Question 2: What do you think the purpose of the tender should be?

a) **To improve gas Security of Supply,**
b) **to adequately compensate sites willing to provide protection to the domestic sector,**
c) **To give the SO an additional tool to reduce demand, thereby preventing them having to call a Network Deficit Emergency.**

Question 3: What benefits do you see a DSR tender providing?

a) **Increased predictability for the SO in preventing an emergency,**
b) **Paying compensation for sites prepared to be interrupted**

Question 4: What costs do you see arising from a DSR tender?

a) **The tender process in itself should be fairly low cost as is the current case with DN capacity tenders.**
b) **Compensation payments of option paid on an annual basis and recovered through transportation charges**
c) **Exercise payments as and when a deficit occurs recovered as described in the SCR through imbalance charges.**

Question 5: Do you think a DSR tender should have a role subsidising investment in back-up facilities, if so, why?

a) **No. the two things are completely separate.**
b) **A site must carry out their own risk assessment when making a decision whether to have back up facilities, after all a JCB can always create a local gas**

deficit when digging for other utilities.

c) **The fact that the tenders are to be held annually will prevent investment in back up facilities for gain purposes as there is no guarantee that their bid will be accepted and with such an investment a one year payback to totally impossible.**
d) **However a site prepared to put back up facilities at the disposal of the SO should be compensated on an annual basis through an option payment.**

Chapter 3

Question 1: What do you see as the key design issues for the high level design of a DSR tender? Are there any we have not included here?

I believe you have covered all the high level design issues

Question 2: What are your views on having variable option fees in the tender? Do you have any concerns about the costs that these could impose irrespective of a GDE actually occurring? How should these be funded?

a) **Variable option fees are a feature of the DN capacity tenders; therefore there is experience in the industry with dealing with this feature.**
b) **Bidders into this tender in effect are opting not to be firm therefore removal of part of their transportation charge could be a means setting the option fee.**
c) **Should be funded by increasing capacity payments from the remainder. A great deal has been made of funding option payments as being costly. If a domestic consumer was asked to pay less than 1% of their gas bill as insurance (say £5/annum) to prevent losing their supply this would yield over £100 million/annum. If you compare this with the hundreds of pounds we each pay for car, home, contents and life insurance it pales into insignificance.**

Question 3: What are your views on the eligibility of gas-fired power stations? How should the interactions with the electricity market be managed?

a) **I understand that some power stations take advantage of utilizing the non-firm NTS capacity regime. How could they then take part in this tender proposal?**
b) **I believe their response could be unpredictable at times of high gas and electricity demand and therefore should be excluded from the tender at this stage.**

Question 4: Could participation of gas-fired power stations have a negative impact on the tender, or on the gas market as whole? If so, can you suggest any steps that could be taken, or an alternative mechanism that could be created, that would help mitigate these concerns?

a) **I believe that they would swamp the impact of I&C consumers in any tender. A typical 400MW power station can use up to 200 million therms/annum. I know of only a few chemical companies that can match this.**
b) **Yes. Perhaps hold tender excluding power stations to see if sufficient volume is obtained before expanding the tender if necessary.**

Question 5: Do you have any views on what consumers whose bids were unsuccessful should be paid if they are firm-load shed?

I accept the logic saying that unsuccessful bidders should be paid the average of the successful bids and I do not believe they should receive their unsuccessful bid.

Question 6: What are your views on the response type the tender should contract for?
I believe an option and exercise is the only sensible choice.

Question 7: What are your views on a minimum volume threshold? Do you have any ideas on how this could be set? Should there be a limit on the number or size of tranches that consumers can bid?

a) I deal with this point later in Additional Design Issues under minimum volume threshold, but basically I argue for the limit to be a minimum total volume of 5,000 therms/day.

b) The limit on the number of tranches has to be for the SO to determine what is manageable, however I would suggest the minimum volume of each tranche should be the 1,000 therms/day.

Question 8: What is your preferred length of time and/or frequency with which NGG may exercise a DSR contract? Do you have a preferred minimum response time if a DSR contract were to include one?

a) My experience is that having been interrupted consumers would prefer to remain off until the potential emergency is cleared.
b) Repeated interruptions should be avoided.
c) 4 to 5 hours lead time would be sensible
d) However some consumers may be able to respond quicker than this for which the SO may be prepared to pay a response premium.

Additional Design Issues

Supply Side - I agree that the supply side should be excluded from this route to market until we see the response from the demand side to the tender invitation.

Eligibility – I agree, however I am concerned about using aggregators for two reasons, the first being that TPIs will use this as another service to bombard consumers with. The second is that a number of members have in the electricity market withdrawn from offering their capacity in the STOR action because of the actions of aggregators.

The Product – is OK, but the point made in 3.41 needs to be re-worded. It is not the reduction on the day that has to be measured, it is the amount the customer uses on the day that has to match or be below what they have contracted for. The original wording used in 3.41 could exclude tranche bids and self-interruption.

Response type – I believe it is the latter that should be in the tender. I believe this would encourage consumers to take part as they can specify a minimum off-take to protect their equipment. It will also be far simpler to monitor that a consumer has not exceeded his contractual volume.

Trigger Point – I believe it has to be after the GDW and before an emergency is declared. The point about commercial interruptions are almost irrelevant to a GDW, a supplier and customer can agree a price trigger point irrespective of the volume of gas available in the market. I would also point out that it is approaching 3 years since the SCR was first mooted and am not aware of many (if any) commercial interruptible contracts having been agreed.

Response time – I would have thought this to be a critical element of the agreement as far as the SO is concerned. In previous arrangements a figure of 5 hours was the norm, however there may be a case for the SO to pay more to those who can respond more quickly. This may be a future development of the arrangements.

Length and frequency – this will be relevant to consumers, the length in some cases being linked to the volume of back up fuel that can be stored and obtained. The frequency will be linked to the disruption caused to the consumers operations. It is an issue that will have to be addressed if consumers are to be encouraged to take part in the tender.

Tranche bidding – this should be a must for any proposals. The absolute minimum requirement for the tender proposals should be that a consumer be allowed to retain a small volume for equipment protection.

Measuring response/compliance – I would argue that the response does not need to be measured; it is only that the consumer complies with the maximum volume allowed under the terms of the tender. This volume is easily measured using the existing daily meters, which I understand obtain a reading every 6 minutes.

Consequences of non-compliance – I agree that a penalty needs to be determined in advance and the suggestion of them paying the exercise price that they would have been paid appears to be fair. I would go further and in addition make them pay back twice the option price they had received for that year (assuming we had an option and exercise scheme). The point made in 3.54 is linked with the earlier point on Response Type, if the second proposal is adopted a consumer who has self-interrupted has in fact complied if later called by the SO. In addition by calling a consumer to interrupt who has already self-interrupted this will prevent them coming back onto the network, which helps the SO.

Minimum volume threshold – the points made are valid with regard to the potential numbers involved and as shown in appendix 4 there are a potential 1,134 DM sites. One logical answer would be to limit the volume to match the mandatory DM volume of 2 million therms per annum. This would mean for a site with 100% load factor their daily volume would be 5,479 therms. However this would exclude some 774 DM sites from bidding, which in turn would mean that the point made in 3.30. *'We are of the view that those who choose not to participate should receive no payments. This will incentivise participation,'* would need to be re-addressed.

Tender timing – I can agree with the logic of a short lead-time between the tender and the gas year.

Post-tender assessment – I can understand the wish for this to take place but understand the concerns that you express. A point I believe you have overlooked, if the assessment were to take place it is essential that there is total anonymity with regard to consumers bids.

CHAPTER: Four
Question 1: What are your views on the three straw men?
Straw man 1 and 2

a) **As a strong supporter of an option/exercise tender I do not think the first two**

straw men warrant much consideration

b) **With an exercise only tender even if a bid is accepted that is the last a consumer will hear of it until the next tender with no physical evidence or benefit.**
c) **As has been predicted it could be many years before a GDW is called therefore the annual tender will become a non-event.**
d) **As the consumer has to bid in order to qualify for any payment this will lead him to leave a fixed bid on the system that has nothing to do with his VoLL just to comply with the rules**
e) **This could lead to such bids being close to or at the known value of £14/therm.**

Straw man 3

a) **This is the straw man I would support**
b) **I have some concerns with the example used at the bottom of page 35 that shows that £0.40p/therm would possibly develop as the option fee**
c) **The detail of the calculation suggests that this is a one of fee based on the daily volume bid irrespective of the number of days the bidder may be interrupted, obviously with the exercise payment covering this.**
d) **My concern is, using the same number as previously quoted in minimum volume threshold, a site using 2 million therms/annum and bidding 5,000 therms in the option would receive a one off fee of £2,000 when their annual gas bill is £1.5 million, or put another way 0.1 p/therm reduction against a delivered price of 75 p/therm.**
e) **The gas market moves far more than this on a daily basis, therefore I do not believe this will encourage any I&C consumer to bid.**

Question 2: Do you think a price cap is necessary to limit shipper liabilities?
No

Question 3: Do you have any suggestions for how the volume cap in straw man 2 or 3 should be set?

a) **I believe this is a question for the SO to answer,**
b) **it is for them to indicate what volume would make a significant contribution to security of supply with the process being monitored on an annual basis by an industry work stream.**

Question 4: Do you think the volume cap in straw man 2 or 3 is sufficient to prevent inefficiently high DSR bids from being accepted?

a) **No,**
b) **there are some DM consumers who will bid high to attempt to avoid being called off prior to an emergency**

Question 5: Do you have any views on whether or not straw man 2 should be paid-as-bid?

a) **I believe it is irrelevant as this option should not be considered**

Question 6: Do you have any ideas for how a fixed budget for straw man 3 could be set?

a) **I believe it should be a volume budget and not a financial budget**
b) **The volume should be set by the SO in discussion with the industry.**

Question 7: Should any volume cap or fixed budget be known to the market ex ante?

a) **Yes I believe the volume cap should be known as is the case in DN capacity auctions.**

Question 8: What do you think of the rationale for having fixed option fees in straw man 3? Why might they be necessary to ensure sufficient participation and competitive bidding?

a) **Without option fees it will make consumers with standby equipment bid higher**

Question 9: How could the fixed option fees could be determined?

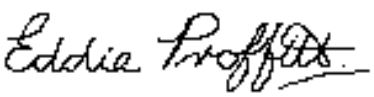
a) **By an industry work-group assessing the cost of maintaining stand-by equipment,**
b) **or by recognising that these consumers no longer have a firm gas supply and reflecting this in their transportation charges**
c) **By the consumer determining their own as is the case with DN capacity auctions,**

Question 10: Do you have an alternative design package that you think better meets the aims of the DSR tender than the three set out here?

a) **I believe straw man 3 needs further development bur could be made to work.**
b) **Yes I do think there is an alternative, here goes - the elephant in the room, however this is not a request to revert to the original interruptible regime.**
    a. **The SO determines the option value related to capacity charge and publishes a percentage reduction in transportation charges linked to the AQ of the bidder.**
    b. **The option fee is not a one off but one spread over the full year as it is a reduction in transportation charge.**
    c. **An exercise value related to the current price of say gas oil is determined using a predetermined formula that is adjusted using current values at the time of the GDW.**
    d. **The SO then chooses offers based on criteria pre-determined by an industry work-group.**
    e. **Unlike the NTS, at no stage does the consumer have the right to opt for non-firm transportation. The choice of whose bid is accepted will always be that of the SO.**

This submission is not confidential.

Yours truly,



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