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Dear Tom

### **Significant Code Review – Final Policy Decision**

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 consultation being carried out by Ofgem and this opportunity of providing customers' views on the proposals.

Having been involved throughout the three year process leading up to this decision and having attended over 30 meetings I think my views are fairly well known however I will repeat them for the record.

I must begin by welcoming both the decisions, to change the cash out arrangements and to introduce a demand side response product. I have long believed it to be wrong to cap the market at a time when we are looking to encourage as much gas as is available to be delivered. On the question of demand side response I have argued that large daily metered (DM) sites provide protection to the system for emergency situations caused by other sectors demand increasing and yet have no compensation for doing so.

Having said I believe it is right to allow the market to float I must admit that others are more qualified than me to comment on the detail of the arrangements.

On the decision to require National Grid to develop a demand side response product I believe this should be encouraged, however I do not agree with the detail contained in the Ofgem document.

I am amazed that after more than 20 years of competition in the gas market Ofgem still believes that a commercial interruptible regime will develop. Pure economic theory may suggest so but practical experience has proved to be different. Therefore I find it very disappointing to read "*As with a DSR mechanism, it is important that the arrangements do not preclude the emergence of market-based DSR*".

My second issue with the proposed DSR is the decision not to have option fees, with the following statement "*Ofgem strongly advises against any DSR mechanism design that incorporates option fees. The key reason is that they are not cost effective as shown in the Gas Security of Supply Significant Code Review quantitative analysis undertaken. This is mainly due to the fact that we enjoy high levels of gas supply security provided by a diverse range of supply sources therefore the likelihood of the mechanism being utilised is extremely low.*"

I believe that an exercise only regime will lead to extremely high bids in any tender process, my logic being why would I want to be the first called off in an emergency? No, I would want to be last with Ofgem having given me my target of £14/therm. However with option fees a consumer with stand-by equipment installed could be encouraged to put in a competitive bid.

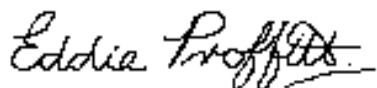
If Ofgem believe that the likelihood of a disruption is extremely low I question why we have wasted the last three years developing the SCR and proposing a DSR product. I have always thought of a DSR as being the equivalent of car insurance, by law I only require to have "legal requirements" cover but I still take out "fully comprehensive" every year although it must be over 20 years since I had an accident. Using the same analogy for domestic gas security instead of asking how much compensation a consumer would require perhaps you should ask how much annual insurance they would pay to ensure that they never lose their supply. According to the figure published by DECC the average gas bill for 2013 was £729, if the domestic consumer were asked to pay just 1% this would give £145 million that could be spent on a DSR scheme, a fraction of which would be required to fund an option fee scheme.

My third comment is about the proposed compensation for involuntary interruptions in the absence of a voluntary DSR mechanism, using the average SAP of the 30 days prior to the GDE. Using this formula if a GDE happened tomorrow the average for the last 30 days is less than 54.5 p/therm. I understand the logic that Ofgem are using to say that by keeping the compensation low commercial interruptible contracts will develop. The weakness with this argument is that currently NO compensation is paid yet we still have no commercial interruptible contracts in the market. Bearing this in mind I would argue that a shorter period leading up to the GDE should be used to calculate the compensation to be paid.

Finally an observation on payment, *"this ensures that payments to consumers can be passed along an active contract chain"* the proposed payment of compensation within four months could span a change of supplier and therefore there is no longer an active contract chain. The changes to licence conditions I assume will cover this eventuality.

This submission is not confidential.

Yours truly,



Eddie Proffitt  
Chairman, Gas and Carbon Groups