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Dear Sirs,

INTEGRATED SINGLE ELECTRICITY MARKET DRAFT DECISION PAPER

Thank you for the opportunity to comment on the Draft Decision paper on the proposed I-SEM future arrangements.

The MEUC is a customer lobby group which represents the views of Industrial, Commercial, Retail and Public Sector businesses throughout the UK. We have also several members operating in the Northern Ireland marketplace and some in the Republic of Ireland.

We would comment on your consultation in general terms as the concepts and arguments are quite technical in nature. It is extremely difficult at this stage to predict the impact the new I-SEM arrangements will have on electricity contract negotiations, going forward.

GENERAL CONSIDERATIONS

The initial proposals have generated a wide and varied response from across the industry and it will be difficult to accommodate the divergence of views in any final market rules and governance. However, we trust that when compromises are to be made the deciding factor will be that which is in the best interest of the customer. After all, the consumer is the party in the supply change who pays the full costs of electricity generation and delivery. Cost modelling of the various options should continue to be undertaken to arrive at the most appropriate solution.

DAM vs LONG TERM PRICES

It is proposed that participation in the “Day Ahead” market is not to be mandatory but exclusive. It is not clear to us what is meant by “exclusive”. This could be an alternative term to optional. In our view it is essential that as many participants as possible take an active role in the D/A markets as such markets can have a significant influence in longer term price trends. In GB, generators are required to trade a percentage of their volume through short term markets. Consideration should be given to a similar arrangement in the I-SEM.

Longer term hedging is proposed via Financial Instruments and not through Physical Contracts. In our view this could pose a serious issue for some of our members who are forbidden to enter the Financial Instruments arena. Provision needs to be made for customers who wish to take a longer term position as regards securing volume and reducing risk. Prices in the current marketplace, provide an immediate attraction to many customers to “lock in” forward prices well into 2015 and beyond.

The I-SEM arrangements must be such that they allow customers to “lock out” volume several seasons ahead of the D/A position if their company risk assessment so dictates. In other parts of the EU electricity and gas have the provision to be physically traded years in advance and the same provisions should apply in I-SEM, if not immediately then as soon as reasonably possible. A timeline should be agreed when this arrangement will be introduced to the market rules.

Additionally, it is our view that Financial Instruments bring a lack of transparency to markets while Physical Arrangements appear much more transparent. Such transparency may well attract other customers into considering long term deals. Long term deals stabilise the contractual arrangements between Suppliers and Customers and should result in lower Supplier margins and overall cost benefits to end users.

DEMAND SIDE RESPONSE

The new market arrangements and the expected tightening of generation will create price spikes at times of system peak demand. The I-SEM arrangements should make provision for the inclusion of demand

management activities in the area of system security and capacity reductions. Such demand side measures are currently being included in the GB marketplace contract alterations and many large consumers are already involved in ancillary service activities for system stability considerations.

INNOVATION & CHOICE

The I-SEM arrangement above all must not restrict the choice customers currently enjoy on how they contract for their electricity arrangements whether they be contracts linked to NBP gas or spot pricing arrangements. The proposals must be such that they also encourage product innovation in the Supplier community. Choice and innovation will be the two factors which impact on price and ensure healthy competition.

CONCLUSION

Thank you once again for the opportunity to comment on these proposals and we look forward to a continued dialogue prior to finalisation of the scheme. We would propose in particular, a further stakeholder's seminar where the finalised details of the scheme can be explored again, perhaps through the presentation of some simplified worked examples.

Yours faithfully

Don McGarrigle
MEUC (NI) Manager