

Major Energy Users' Council

Energy Meeting
8th December 2008

at

Engineering Employers' Federation
Tothill Street, London



1 Hugh Conway, Electricity Group Chairman—Welcome and introduction

- The BERR Committee ran an inquiry during the summer to look at electricity and gas bills. MEUC gave a short presentation and some oral evidence which demonstrated that, particularly for electricity, UK prices are higher than those on the Continent of Europe. Ofgem faced severe criticism and are now saying they will require supply companies to provide a quarterly link between wholesale and retail prices as retail prices continue to rise whilst wholesale prices have fallen.
- It was also proposed that unless the big six companies voluntarily provide separate accounts for their generation and supply businesses, statutory measures will be put in place to enforce this and make it more difficult to hide data in creative accounting.
- The MEUC delegation to Brussels was interesting in that there was a clear message from everybody present – including two of the MEPs we met – that current policies on competitiveness, environment and security of supply are impossible to rationalise. They make no sense.
- Brussels is sticking to the 2020 target and has now proposed 80% carbon reduction by 2050. The reply to the consultation on behalf of MEUC made the point that it is not practical to have 35% of electricity generated by wind. It makes no sense from an engineering perspective as it is impossible to balance the system. But they are absolutely focused.
- Heavy industry should be very concerned about the latest Emissions Trading Scheme because the proposal is to auction all emissions. Companies like air lines will buy carbon emissions and add it on to the price of the ticket but energy intensive industries will just have to pay the price.

2 Eddie Proffitt, Chairman, MEUC Gas Group - What's been happening in the Energy Markets?

- Distribution Networks have published their indicative prices from April 1st. They will not be firmed for another two months but the networks are now committed to providing information to suppliers and shippers to enable them to forecast where they are going.
- The movement on these prices is astonishing with National Grid, in particular, overcharging in the east of England to the tune of 13.5% but undercharging in London by 9%. This follows an increase in London of 62% last year. Scotia appear to have estimated correctly last year and are not making any changes to their figures.
- Interruptible Reform : Auctions have been introduced for interruptible capacity and bids last June were for only 16 sites in the whole of the country. Going to market again in October resulted in a further 11 sites. There will be a total of 27 interruptible sites to replace 1200-1400 previously and, in some areas there will be none at all. The network owners say they don't need them.
- At a recent meeting with the Regulator it was hinted that Ofgem are under pressure from the government to take a more proactive role in the gas market and asked for our views. It was very difficult to answer— but it is clear that Ofgem are looking at expanding their role in this area.
- As a result of a demand side working group, the National Grid have now developed a daily reports system. There are graphs showing generation details for each half hour making it easy to understand what is going on in the electricity market.

3 Don McGarrigle, Electricity and Gas Adviser, MEUC—Winter prices and thoughts over the short term.

- A graph over the past year for Brent Crude shows how steeply the price of oil has come down, particularly in recent months. On Friday oil was below \$42 a barrel - down to a level we've not seen since early 2005. Coal also has dropped off to \$80 a tonne – the lowest since early 2007.
- **Winter prices:** There has been a downturn in power and gas from day ahead, week ahead, to month ahead and right out. Prices which were around £90/MWh and 110 p/therm are now down in the mid 50s /MWh.
- **Summer prices – Power –** An annualised contract now at £60/MWh is getting down to the price levels of 12 months ago.
- It is difficult to make a decision in a falling market. Buyers are advised to lock in some volume now. There are opportunities now and the trend could change. Some buyers have already bought supplies out to 2011 or 2012. Energy buyers in recent years have been short term buyers. The feeling now is that things are changing and we should be looking longer to maybe three year contracts if directors will accept that.
- There is a need for new generating plant and prices will have to rise to stimulate investment. The one certainty is that prices will rise so buyers should take advantage of the market now.

4 Laurent Mineau, Head of Energy Services, EDF Energy – Your supplier, energy services and you – what should you be looking for?

- EDF is one of the UK's largest energy companies with the successful business plan of selling more energy to more customers. Now the plan is changing to working with customers to help them use energy more efficiently.
- The Carbon Reduction Commitment will require UK businesses to report their energy consumption and carbon emissions. Some companies do not realise that not acting on this means they will probably lose money and damage their reputation. Those who have a positive attitude will be the winners because it's not only about carbon reduction, it's also an opportunity to re-engineer your processes and for most people it will have an immediate effect on your bottom line.
- Bigger customers are recommended to sign up for an Energy Efficiency Programme. EDF will appoint an experienced project manager to work with the customer to understand and advise on appropriate measures and implement whatever action is necessary.
- EDF can do energy efficiency surveys or can offer an energy efficiency toolkit. This is full of helpful advice to identify savings and businesses can subscribe to this without having to be EDF customers.

5 Electronic Voting—Session 1

- Which is the most important aspect of your supplier relationship ?
Price – 41% Accurate Bills - 35% Good account management –18% Value added services – 6%
- Are you familiar with your suppliers value added service products?
No - 62% Yes 38%
- In the current climate do you think some electricity and gas suppliers are safer than others in terms of surviving the credit crunch and managing their portfolios?
Yes - 74% No - 26%
- If you answered Yes to the last question will your next tender go to fewer suppliers?
Yes - 65% No - 35%
- Conversely, do you think that suppliers will be more selective in terms of taking on the consumers with a higher risk factor?
Yes –97% No – 3%

6 Jim McCabe, Sector Manager, ABB Engineering Services – Designing and delivering a sustainable energy efficiency improvement programme.

- ABB is a Swiss/Swedish Engineering giant with 100,000 people operating in virtually every country around the globe.
- We supply products and services that deliver energy efficiencies along the whole energy chain from extracting primary energy - gas, coal, whatever – through distribution and conversion to electricity and in transmission and distribution of that electricity.
- The estimate is that as much as 80% of the primary energy is lost through that conversion and transmission chain and ABB aim to reduce those losses by 25-30% at each stage.
- We have a three-stage improvement process. First, identifying where improvements can be made in all parts of the organisation from the way energy is purchased to the way it is managed and used.
- Next is the Energy Management Master Plan – moving from a list of possibilities into some real savings. Part of that is getting the organisation aligned behind the savings programme – getting some engagement from the work force and also from the senior management in order to get the resources and time to deliver these improvements.
- Most companies today will have had an energy audit but few are actually implemented, largely due to lack of commitment and lack of leadership to make the resources available.
- An important step is to look at the resources available - How many energy managers are there? How are they trained? What information systems do they have to help them make decisions and present recommendations to the leadership team?
- Finally they look at moving from individual programmes to an improvement programme across a whole corporation.

7 Duncan Burt, Customer Service Manager, National Grid - Coping with supply and demand threats and how it affects consumers.

- As well as operating the main electricity transmission system in Great Britain, since 2002 National Grid has also operated the gas network and a number of distribution companies. With expansion in US it is now a 50/50 US company in terms of both assets and profits.
- At national level the company must balance generation and demand in real time, manage flows safely on the system and facilitate balancing the market. That is a shrinking demand - just fine tuning accounts as people have begun to balance their own load and forecasting their demand.
- There is also a need to procure and manage reserves—the spare margin available if things go wrong. Weather is a big driver of demand changes which can affect the integrity of the system. Equipment failures or storms can have major impact and there can be huge variation in demand between day and night or summer and winter. Great engineers and analysts are the key to success in ensuring the network is secure and managed efficiently.
- Looking longer term towards 2020 or 2030, we have many technical people working with industry and government to see that future changes will be handled effectively. Looking at the Carbon Reduction targets, it is anticipated much of that will be delivered from reduction of carbon in electricity generation. There could be a big change in the way the electricity industry works. Smart meters will have an important role to play as well as storage and flexible generation.

8 Electronic Voting - Session 2

- Are you likely to make more use of consultants next year because of the CRC?
Yes – 37% Don't know – 31% No – 23% Already use them – 9%
- Under the CRC customers will be penalised for inaccurate readings. Who should pay?
Meter Operator - 33% You – 24% Supplier – 24% Appeal process – 18%
- Would it be useful for MEUC to have workshop(s) for members on recent legislative changes? Would you attend?
Yes – 91% No – 9%
- If you answered yes to the last question, what should be included?
CRC – 11% **CRC plus Climate Change and ETS -72%** Other issues 17%
- What would be a reasonable wholesale price for 2009?
<30 – 30%; **30-40 – 36%**; 40-50 – 24%; 50-60 - 6%; >60 – 3%

9 Ian Trim, Senior Policy Adviser, Carbon Reduction Team, DECC—Are you completely in the know and up to date?

- The Climate Change Act sets emissions reduction to be achieved by 2050. The next round of consultations for CRC will be in late Feb/early March - a round of very detailed regulations setting out the policy and a guide to what actions organisations will have to take.
- CRC will be the UK's mandatory emissions trading scheme for large non-intensive energy organisations and the public sector. Qualification for the scheme is based on half hourly electricity usage of more than 6,000 MWh per year.
- CRC will be a cap and trade scheme, revenue neutral to the Exchequer. Allowances will be sold within CRC but the proceeds will go directly back to businesses. Any organisation with a subsidiary with more than 25% of emissions in another climate change agreement is exempt from CRC.
- The first sale of allowances will be in April 2011 when organisations will have to buy two years' allowances. The money will be recycled - paid out six months later in your recycle allowances. From 2013 auctions will be held but there will be arrangements for buying additional allowances through the trading scheme. At the end of the year excess allowances can be banked for future use.
- The scheme will include a league table – very important for organisations, bringing in reputational as well as financial drivers for buying allowances. .
- Anyone not registered on the CRC website was urged to do so to receive policy updates over next 18 months as the new policy is implemented.

10 Shayne Rees, Marketing Communications Manager, EDF Energy—How are suppliers preparing customers for CRC and what are the options for carbon trading?

- Energy and gas companies have been involved in the consultations to arrive at a practical scheme that must work for customers, suppliers and government.
- It is also essential to get companies focused on the real objectives of CRC – aiming for greater energy efficiency.
- EDF ran a series of workshops for their customers explaining the mechanics of the CRC regime. There has been very good feedback from the 500 customers and consultants they reached around the country.
- Carbon regulations in UK are growing tougher and, as industry accounts for more than a third of emissions, it is important to break down the cost and understand the impact on your organisation. Companies could be penalised if they do not start metering and try to enter the scheme with estimated bills.
- Companies need an action plan to be implemented between now and the start of the scheme. All emissions for all fuels must be measured for all your sites and this will be done every year after the start of the scheme. At least 90% of emissions must be included in one of the carbon markets like CRC or CCL or Emissions Trading Scheme.

11 Steve Hodges, Energy Officer, North Somerset Council—Local authorities and the CRC.

- The government has said the public sector is in a key position to lead on efforts to reduce CO₂ emissions and setting behaviour to achieve emission reductions. But local authorities are unwilling to take action. Many have not even started looking at the CRC requirements.
- For local authorities it is not just a matter of recording fuel, it involves transport and all the services outsourced, creating a vast database of energy emissions.
- Local authorities have neither the administrators nor the funds to deal with the necessary paperwork, administration or complex financial arrangements.

12 Electronic Voting—Session 3

- Why is energy efficiency important to your business?
Need to reduce significant costs – 55%
Corporate social responsibility drivers - 18%
Regulatory drivers e.g. CCLA; EU ETS – 15%
Strategic commodity, need to manage price and availability risk - 12%.
- OK, so how important is it to your company compared with other priorities?
Number 1 – 15% Top 3 – 30% **Lower than that – 55%**
- When do you plan to install AMR/Smart meters?
No plans – 33% **Next year – 33%** Already done so –26% By end of 2010 7%
- Are you aware you can't claim a carbon saving by buying renewable energy from the grid?
Yes – 63% No 37%
- **15** - How affordable is the activity of buying emission allowances?
A stretch – 50% Manageable – 30% Not a problem – 10% Impossible – 10%

13—15 QED

The meeting closed after a series of Quick Energy Discussions which were not recorded.
