Response to: Cover letter for Smart Grids evaluation framework – A Smart Grids Forum consultation report

Received by email 24/11/11 from Poyry Management Consulting

As a party actively involved in the provision of expert understanding and detailed assessment of smart grid role and associated benefits - advising a number of key stakeholders such as the European Commission, DECC, National Grid and Electricity North West; we are following the Smart Grid Forum (SGF) activities closely and with interest. Thus we have reviewed the Consultation report prepared by Frontier Economics under Workstream 2 (WS2) of the SGF as it represents a key basis of setting the framework for providing information on which key policy decisions will be made within the GB electricity market by DECC and Ofgem covering the full value chain of wholesale, network and retail activities.

Overall we think the consultation report provides a comprehensive and thorough treatment of the wide range of issues which need to be captured and assessed to provide robust findings for industry and policy makers. However - whilst we recognise the intentions to enable public use of the modelling framework and the practical limitations this can impose given the complexity of the subject - we have identified some aspects of the proposed assessment approach and key assumptions which we feel may potentially impact the robustness of end results; some examples of which we highlight below.

We would expect other stakeholders with their different perspectives to identify different potential issues and refinements. Thus given this context we welcome the proposal to hold a workshop to facilitate and open discussion between interested stakeholders of this work to discuss some of the key complexities and mutually agree potential necessary refinements to approach and assumptions. For us the three key agenda items we would anticipate being required are:

(i) nature of value drivers and how to suitably capture these within scenarios,
(ii) assumed role of different industry players and implications for value chain assessment; and thus
(iii) proposed modelling approach/specification, and determination of key assumptions.

I referred to some observations we had made in reviewing the Frontier Economics Report - I note three examples below

1) whilst identified as key value driver - we believe the impact of intermittency is unduly down-played (and our ongoing work for the European Commission on carbon benefits of smart grids which will complete next year is clearly highlighting the importis) and it is suggested to be a supplier/smart metering only issue when our previous work e.g. for DECC shows intermittency is a critical driver of need for effective coordination between suppliers and networks; and thus the need for much of smart grid related architecture investment.

2) As noted above we believe a key future requirement in the GB electricity market is effective coordination between suppliers and networks. Within the EC funded FENIX project we developed business models which permit the value of "smart" to be captured EITHER for network or energy services depending of the relative value at the time. In the Consultation Report there is a sense throughout the report of a suppliers first, DNOs second view of approach to smart developments. If this is an accurate perception there is a risk that the understanding and allocation of benefits from smart grids adopts a bolt on benefit mentality and does not reflect the intertwined relationship of different

stakeholders

3) having acknowledged the complexities and uncertainties faced - the modelling approach tries to capture these in a high level and simplified manner - e.g. only 3 scenarios, only a small number of typical wind days, two stage optionality modelling, solar not modelled in same detail as wind, use of assumed probabilities for weighting of results (how derived?). Whilst we recognise there is clear need to adopt an appropriately simplified and representative approach; our experience in this area indicates that even for an analysis seeking to provide key messages there is a danger that some key behaviours and interactions may be missed, under-recognised, or misrepresented; and thus adopting appropriate simplified modelling design and derivation of key assumptions will be a key aspect of ensuring a robust assessment. As noted above; we see this as a critical area for workshop discussion with stakeholders .

If you have any questions about the any of the above I am happy to address these.

Best regards

Mike

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