

# Demand Side Working Group

## Terms of Reference

### **Introduction**

The New Electricity Trading Arrangements (“NETA”) were introduced in England and Wales 27 March 2001 (“Go Live”). They were designed to address a number of weaknesses with the Electricity Pool and to deliver more effective and competitive electricity trading arrangements. One of the objectives of the new arrangements was to fully incorporate the demand side.

On the demand side participants are able to support the balancing of supply and demand in both the short and medium term through load management activity. Such benefit is often a combination of energy balancing, fuel saving and capacity cost reduction.

In August 2001, Ofgem published a review of the first three months of NETA<sup>1</sup>. Ofgem concluded that encouraging signs of demand side development have begun to occur with the demand side responding in direct competition to generators in NGC tenders for balancing services and providing competitive response to high prices in the Balancing Mechanism. This suggests there is the potential for greater demand side participation in NETA than has been seen to date and this will result in lower balancing costs and consequently benefits for consumers.

Recently some demand side participants have suggested to Ofgem that they are finding it difficult to participate in NETA and in particular in the Balancing Mechanism. Ofgem is keen to encourage demand side participation in NETA and considers it important that any obstacles are assessed and understood. As a result Ofgem formed the Demand Side Working Group (“DSWG”) to facilitate these activities by market participants.

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<sup>1</sup> The New Electricity Trading Arrangements. A review of the first three months. August 2001. This document can be found on Ofgem's website: [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

## **Demand Side Working Group Terms of Reference**

**Objective:** To identify and assess any practical and/or commercial obstacles to demand side participation in NETA and to facilitate the consideration by market participants of the raising of modifications to the Balancing and Settlement Code (“BSC”) or any other Industry Documents to remove any obstacles consistent with the relevant objectives.

**Scope:** The Group will:

- **review** and assess the range of options currently available to and all the potential opportunities for demand side participants for participating in NETA.
- **identify** if there are any practical and/or commercial obstacles inhibiting effective demand side participation in NETA;
- **determine** measures for the removal of practical and/or commercial obstacles to demand side participation in NETA consistent with Ofgem’s Statutory Objectives and the Objectives of Industry Codes;
- **evaluate** and propose a timescale over which the necessary improvements to demand side participation in NETA can be addressed.

**The scope of the Group will be limited to** the issues surrounding demand side participation and its development under the current NETA.

**Participation:** The Group will be chaired and facilitated by Ofgem and involve the participation of suppliers, customers, ELEXON, NGC, BSC participants, and representative bodies or trade associations. Relevant experts will be made available to the Group.