

DEMAND SIDE WORKING GROUP MEETING

MEETING NOTES

Venue: Ofgem, 9 Millbank, London

Date: 28 July 2005 9.00 – 13:00

Attendees

Chairperson:

Sonia Brown (SB) Ofgem

Jo Witters	Ofgem
Fiona Lewis	Ofgem
Liz Chester	Ofgem
Kevin James	Ofgem
Claire Rozyn	Ofgem
Ed Carter	Ofgem
Eddie Blackburn	National Grid (NG)
John Perkins	National Grid (NG)
Helen Bray	Chemical Industries Assoc (CIA)
Nigel Cornwall	Cornwall Energy Assoc
Clare Temperley	BG Business
Charles Ruffell	RWE
Mark Linke	Centrica Energy
Rob Cross	Statoil
Shelley Jones	Statoil
Eddie Proffitt	MEUC
Norman Sambells	CIBA Speciality Chemicals
Paul Savage	energywatch
Stephen Moore	EDF Energy
Hugh Mortimer	BOC Gases
Sion Roberts	Total Gas & Power
Steve Davies	DTI
Bob Evans	British Salt
Andrew Pearce	BP
Alison Meldrum	Corus
John Costax	EDF Energy
Christiane Sykes	E.ON UK
Tanya Morrison	Shell Energy
Sebastian Eyre	John Hall Assoc
John Richardson	Hydro
Sharif Islam	Total Gas & Power
Andrew Mackenzie	Ineoschlor
Jeremy Nicholson	EIUG

1. Comments on the notes from the last meeting:

Eddie Blackburn (EB) confirmed that Mod 605 had been withdrawn in 2003. The action point relating to the format in which storage monitor information could be provided by NGT was still being considered, and EB confirmed that historic information on storage would be provided in Excel format. Ofgem to update minutes and confirm relevant amendments with NG (**Action Point**)

EB confirmed that NG cannot contract directly with customers for residual balancing purposes as set out in the Gas Act. Tanya Morrison (TM) referred to statements previously made by Ofgem that Transco could contract for “turn down” contracts (but not for capacity purposes). SB later noted that Ofgem had sought further advice as part of exit discussions and suggested that if shippers had legal advice they could share it with Ofgem.

In respect of NG providing further information on Exit review, EB confirmed that they were looking at the Operational Margins (OM) requirements internally as part of the exit review with shippers and DNs, but that this had been subject to delays.

Gas Issues

2. Presentations

Presentations were provided by NG and the CIA from their perspectives. These presentations are available on the Demand Side information site on Ofgem’s website; www.ofgem.gov.uk.

3. General discussion of points raised in presentations

Participants were encouraged to share their views on demand side response, particularly in order to gain a Shippers perspective. The group expressed a clear understanding of NG’s role as residual balancer, and Shippers’ role as primary balancers. The group also noted a need to be clear about discussing short term and long term issues.

TM noted that whilst overall the current arrangements work well, in very limited and specific circumstances and on a small number of days when the supply margin is very tight, there is scope to explore specific demand side response actions between NG and customers directly, particularly with regard to residual balancing. TM noted that partial interruption would be an option in this respect. RC also noted that as NG was saying its needs were in the short term, and that customers were indicating that response cannot often occur quickly, parties may need more notice in order to respond. CS also noted that if the price is right the response will turn up.

EB confirmed that supply and demand and security of supply were important issues to be considered, and that the demand side can participate through the OCM. EB also set out details of when a shipper can interrupt.

TM stated that NG could contract for demand side using the OCM e.g. forward agreements, but were choosing not to do so. TM referred to Ofgem's decision on Modification Proposal 0705 where Ofgem had suggested this as a way forward.

EB indicated that the reasons for this were as follows:

- Demand side response through the OCM will set the appropriate price
- There is no need to duplicate the current system
- Direct contracting between Shippers and customers will ensure market signals and balancing incentives remain strong; if NG contract directly with customers it will dilute the effectiveness of the OCM leading to increased interruption and reduced security of supply.

SB noted that if NG contract directly with customers there will likely be a cost above the market which will effectively be passed to Shippers. SB asked the group where the line was drawn and what could be examples of those specific sets of circumstances where NG could have a role in this respect.

From a shipper perspective, TM considered that there was a role for NG as an information provider in the period prior to Stage 1 of an emergency, allowing shippers a better chance of addressing their imbalance positions. The group on the whole considered that there was an asymmetry of information between Shippers and customers with several customer representatives noting that they required more information on the physical state of the market over and above that provided by safety monitors and current static report information. The option of a gas 'NISM' (Notice of Insufficient System Margin) similar to the electricity equivalent NGC issues on the BMRS website was discussed by the group as a potential possibility.

The group confirmed an agreed view that over a prolonged period of cold weather demand management, i.e. the balancing of inputs and offtakes from the system, would be the Shipper's responsibility and not NG's. However, the group also confirmed that if a particular sudden event occurred on the system, and if an increased margin was needed to avoid a gas emergency situation, i.e. before Stage One, then it would be appropriate for NG to carry out this role.

It was noted that emergency arrangements should not be the next step from commercial arrangements, and a 'Stage 0' phase was discussed that could flag when the market is close to declaring an emergency.

SB concluded that information asymmetry appeared to be a potential barrier to demand-side response and sought views from the group as to whether it would be worth setting up a sub-committee to meet frequently before winter to discuss current availability of information in more detail. The group identified a number of areas where information transparency and symmetry was an issue, particularly when compared to information provided by NG in the electricity market, and agreed that this was a sensible option.

It was agreed by the group that volunteers for the sub-group should meet next week (time to be determined) to take discussions further. SB noted that the sub-committee meetings will be an Ofgem lead process addressing residual balancing issues and information availability. Ofgem will contact interested parties (Shipper and customer reps) regarding the preferred date for a meeting next week. **(Action Point)**

This sub-group is meeting on Friday 5 August – terms of reference and minutes of the sub-groups discussions will be distributed following this meeting.

4. Barriers to opportunities to Demand Side Participation & Operating Margins – role of Transco NTS

The meeting focused again towards the role of NG in demand side response. SB confirmed the existence of a legislative barrier that prevented NG from contracting directly with customers under Section 5 of the Gas Act. This would therefore need legislative amendment in order for NG to be able to contract in this way. However, SB acknowledged that there were shades of grey as to extent this was a barrier, and this was obviously subject to legal interpretation. SB also noted that the option existed for customers to seek exemptions from the requirement to hold a shipper's licence in order to contract in this way. SB clarified that this was an issue of what NG could do and not necessarily an issue of what role NG should have in this respect.

The group was asked to consider, what were the barriers preventing customers offering demand side services. Several questions were raised:

- Are there barriers to customers bidding on the OCM when their Shipper is in balance?
- When does it become economic for a Shipper to sell their gas back?
- There are restrictions on when bids/offers can be placed on the OCM – is this a barrier, would more flexibility be desirable?
- Are the specified tranche sizes also a potential barrier?

EB noted that customers are constrained by OCM barriers and NG is constrained by commercial arrangements. Some members of the group noted that customers value time and control of when interruption will occur and not necessarily full remuneration – being able to plan processes was considered very important. EB also noted that NG is likely to accept physical trades over title trades when the system is constrained and that customers could therefore make physical instead of title offers to partly address this concern.

The group discussed the possibility of a system that allowed customers to place bids and offers on the OCM which would only become live if the system required them. Questions were raised regarding the time at which information would need to be made available in order for such a system to operate, and at what time Shippers would be comfortable with their bids and offers becoming live. It was agreed that these were OCM related questions and could be discussed by a sub-group in further detail.

It was noted by HB that it was essential to address the issues surrounding the burning of back-up fuels in response to demand side response actions given the implications on environmental regulations. SB confirmed that Ofgem would take this issue forward in discussions with the DTI and Environment Agency. **(Action Point)**

The group briefly discussed the recent Ofgem letter in respect of modification proposal UNC 006. SB noted that the decision to delay the final decision on this proposal had been a difficult one for the Authority and one that had been taken having carefully considered the wide spectrum of views received from market participants. SB

confirmed that Ofgem will publish a further impact assessment in January/February of next year that will assess the incremental value of the information proposed for release under 006 compared to the new baseline of information released under the voluntary scheme. SB confirmed that if the Authority did decide to direct the proposal, Ofgem would seek for Transco NTS to implement the proposal to the same implementation date of 01 October 2006. HB noted that there were a number of problems with accessing information on Transco NTS's website. TM also asked whether Transco NTS will be monitoring the number of hits on their information site in respect of the North/South data information flows. EB indicated that he would report back on this issue at the next meeting. **(Action Point)**

Electricity Issues

5. Reserve Market

SB informed the group that NG's reserve market proposals would be out for consultation at the end of August, and any conclusions will be focused towards Winter 2006/07. The consultation will address the issue of whether the current arrangements are the best way to manage reserve contracting.

6. Pricing

The next Cash Out Review Working Group (CORWG) meeting will draw on the the issues previously discussed but Ofgem are keen for the group's discussions to have a more analytical focus. SB noted that Ofgem would like to see discussions at the next CORWG meeting moving beyond participants own commercial positions to focus on a more analytical in principle perspective.

SB noted that Ofgem has approached both Elexon and NG to conduct their analysis to support this process. Ofgem have drafted a scoping paper and intend to distribute this to the wider CORWG shortly for its consideration, ahead of the next meeting being planned for September 2005. **(Action Point)**

CS made reference to the fact that she would welcome the same analysis carried out in the gas market, and SB confirmed that the Authority is currently considering its decision in respect of the gas emergency cash out arrangements.

SB noted that Ofgem would like to provide an analytical framework to look at several key issues:

- The current electricity arrangements do not distinguish between system balancing and energy balancing. The tagging mechanisms that exist are extremely complex;
- The average price used in the current electricity arrangements may not be providing the right signals to the market to balance in certain circumstances – some parties (including NG) have indicated a clear preference for a marginal cash-out price; and
- Actions taken outside the balancing mechanism need to be appropriately targeted in cash-out arrangements.

AOB

It was agreed that the Terms of Reference for the DSWG would be reviewed and circulated to the group before the next meeting.

The next DSWG meeting will be held at the end of August/early September.

DRAFT