

Paper to DSWG 13 October 2005

At the last meeting of DSWG on 9 September, in a paper which I spoke to I identified a number of issues relating to levels of demand side response in the gas market and possible barriers to greater take-up. Time did not permit a free-ranging comment or discussion of any further steps.

Given the speculative and circular nature of some of the discussions that have taken place over the past three months at DSWG, there are a number of questions that now need to be put formally to Transco and other market participants and endorsed as such by the DSWG. The need for this further consideration is now pressing as the Winter Outlook 2005/06 makes it clear that abnormal weather conditions this winter could lead to the need for significant load shedding by non domestic customers, including gas-fired power stations. In fact it is clear that in the event that sufficient commercial response were not accessed, the prioritising of supply could lead to enforced curtailment of supplies to CCGTs and a rippling effect onto the electricity system.

The list below is not intended to be definitive but it does identify some priority questions that require answers.

Questions principally for Transco

1. What is the legal basis for Transco being unable to contract directly with customers? Is this interpretation accepted by Ofgem and others? If not, what steps need to be taken to provide a definitive answer?
2. Are there any regulatory factors that might also constrain the commercial actions of Transco? For instance are there any limitations in the SMPS statement? What about the incentive scheme? If there are regulatory limitations, can they be addressed before resetting of the SO incentive scheme?
3. Conceptually can a mechanism be defined for “tagging” offers and bids on the OCM to indicate a preference that these should only be taken as “security” or “reserve” bids in the event that a system warning is current? What rule changes might achieve this?
4. As a development on the previous question, would it be possible to allow standing bids to be submitted that were current “beyond the wall”. What rule changes might achieve this?
5. As a further development on the previous question, would it be possible to enable standing reserve bids to be submitted up to five days in advance? What rule changes might achieve this?
6. More generally what changes would be needed to enable customers to submit offers/bids into the OCM? Can a customer use an intermediary into the OCM other than its primary supplier?

Questions principally for Shippers

7. To what extent are buy-back or reduction options now written into supply contracts? How are they structured? How have they been operationalised? How widespread is this approach among suppliers? What volumes are involved?
8. To what extent were they called during the March and April price spikes or was the response initiated through ad hoc negotiation outside of the contract? With what results?
9. Are any suppliers tying indexation to buy-back options?

Questions principally for customers?

10. How can customers be encouraged to increase take-up?
11. How can production processes be made more flexible? What information is required and by when to enable more rounded decision taking?
12. What measures additional to short term improvement of information flows already being scoped might ameliorate the position? Can timeframes be extended? If so, when? Would supplier requirements need to be deepened?
13. What is known of views of consumers outside of the energy intensive industries? What are the views of MEUG? UCC? Others? How are attitudes changing with the increasing emphasis on indexation and other pricing plans?
14. What value calculation do customers make? What sort of offer is more likely to appeal to different customer segments? How can awareness of the options be increased?

None of these are new, but few of these have been progressed to the extent they can be described in my view as satisfactorily addressed.

The DSWG is invited to ask the indicated parties to consider these matters urgently. The objective should be to gather responses to enable development of an action plan of necessary steps prior to the 8 November seminar.