

DEMAND SIDE WORKING GROUP MEETING

MEETING NOTES

Venue: Ofgem, 9 Millbank, London
Date: 9 September 2005 9.30 – 12:30

Attendees

| | | |
|----------------------|---------------------------------|-------|
| Chairperson: | Sonia Brown (SB) | Ofgem |
| Jo Witters (JW) | Ofgem | |
| Helen Connolly (HC) | Ofgem | |
| Claire Rozyn | Ofgem | |
| Olaf Islei | Ofgem | |
| Alan Rankin (AR) | National Grid (NG) | |
| Chris Logue (CL) | National Grid (NG) | |
| Eddie Blackburn (EB) | National Grid (NG) | |
| Helen Bray (HB) | Chemical Industries Assoc (CIA) | |
| Nigel Cornwall (NC) | Cornwall Energy Assoc | |
| Paul Savage (PS) | energywatch | |
| Sharif Islam (SI) | Total Gas & Power | |
| Charles Ruffell (CR) | RWE npower | |
| Eddie Proffitt (EP) | MEUC | |
| Dan Jerwood (DJ) | Gaz de France | |
| Sebastian Syre | John Hall Association | |
| Simon Bradbury | Ofgem | |
| Fiona Lewis (FL) | Ofgem | |

1. Review of meeting notes from July DSWG and updated TOR

There were no comments

2. Review action points from last DSWG sub-group

All but one action had been addressed or was to be addressed during the later presentations.

Action outstanding: NG to circulate information on the number of NISMs that would have been issued over the last few winter periods had they been in place - this agenda item was pushed back to the next DSWG sub group (ACTIONED)

3. MEUC update on industry delegation to Brussels

MEUC informed the group of its conference in Brussels to lobby the European Commission, Parliament and Ministers on the issues it feels need to be addressed in Europe. MEUC stated that it was providing a position paper in advance of the meeting so as to offer solutions to the problems identified. SB also stated that

Ofgem was endorsing the event and members of its senior team would be attending this very important event. Ofgem hopes that many market participants and customer groups would also be attending this meeting.

Action: Ofgem to send a mail shoot to industry with all the relevant information pertaining to the industry delegation to Brussels (ACTIONED)

4. Transmission Price Control

The Transmission Price Control Review (TPCR) process has officially begun. Ofgem noted that it is extremely important that customers become involved in the price control process.

The DSWG members were asked to notify Ofgem if they would find it beneficial to have Networks give a presentation on the TPCR at the next DSWG meeting.

5. Presentation by Ofgem “Progress on Sub-group”, Jo Witters and Olaf Islei

Ofgem summarised the progress the sub-group had made over the past three months, highlighting the developments in information transparency (storage information, NG’s information webpage, gas NISMs, the implications of NG’s residual balancing role and barriers to trading on the OCM).

CR questioned whether timing of information was still a barrier i.e. would customers receive the new information in time for them to be able to co ordinate an effective response. SB noted that storage information would be published daily not weekly, and the clarification of existing information through NG’s information page would allow customers to make informed demand side decisions themselves.

SB went on to note that the key difference between gas and electricity was the reliability of Beach relative to the reliability of generation. SB stated that there are still information issues remaining with regard to offshore information transparency, and while not a “quick win” for this winter, Ofgem was working with industry to try to address these issues. SB further noted that the work of the sub-group had provided customers with a much enhanced information platform heading into winter. CR stated that consolidation of information already available is useful.

HB noted that the DTI still had not contacted the CIA regarding the environmental issue of switching to distillate fuel. SB noted that it was important for customers to keep environmental issues on the agenda.

The DSWG agreed that the recent work had now created a context where the demand side could respond in an emergency situation. SB noted that prior to the sub group, in an emergency situation, customers would face either commercial interruption in Stage 1 or firm interruption in Stage 3 of an emergency. The DSWG work had now given customers another option i.e. the possibility of bidding gas back in Stage 0. SB noted that this was a definite win.

EP stated that the new information looked great but questioned whether customers could also be sent an email when a system warning was issued as a prompt to

customers to check NG's website. SB asked NG whether that was a possibility. AR noted that they are looking at the parallels with the SONAR system in electricity. AR further noted that ANS messaging could also be replicated on the information website. SB stated that the first priority was to get the website up and running and then to ensure that all the information was being communicated to customers.

SB asked whether the DSWG would be interested Ofgem issuing a press release to alert the wider public to the recent work of the DSWG, with particular focus on the newly presented and publicly available customer information. DSWG considered it was important to publish the new information.

Action: Ofgem to speak to the DTI in relation to the environmental issues raised by CIA (ACTIONED)

6. Update from CIA

HB noted that CIA's members thought the storage information and the webpage were very helpful. HB highlighted that much work had been done on system warnings but there was still a lot of work to be done on the trigger and the timing of the trigger. HB also noted that CIA members would like to see more work done on the flexibility of the OCM.

HB listed the top five reports her customers perceived as being most critical:

- ◆ NB92 Hourly information showing Aggregate EOD Demand, Opening Linepack, PCLP1 and PCLP2.
- ◆ Phase 3 data physical and forecast
- ◆ After Day Report
- ◆ NTS entry flows
- ◆ NORD01 Daily information showing Nominations, Allocations, Balancing Actions (Exit Capacity & OCM), and Cashout Prices.

HB noted that her customers find the operational summary useful and they tend not to use the SIS reports.

SB commented that NG's website and the backup arrangements were improvements welcomed by all.

7. Presentation from NG, *Information reporting*, Alan Rankin

AR presented NG's progress on the development of its information webpage and initial thoughts on a methodology for a gas System Alert.

NC considered that it was critical how the storage graphs were defined given they are only forecasts and illustrate worse case scenarios. SB stated she was concerned about the storage graphs NG had presented and that it would be important to educate small and medium customers as to what the graphs illustrate. SB noted this may require NG to hold a briefing session for all customers and relevant market participants.

EP expressed concerns relating to the short range storage monitor. SB noted that industry must be cautious with SRS. Although a useful indicator, it would be

dangerous to focus on the SRS monitor alone as an indicator of system stress. Regarding MRS and LRS, SB noted that the graphs would give a good understanding of the storage situation, allowing customers to form a clearer view of system stress. SB stated that information on temperature and demand versus the seasonal norm would also be an important indicator of the likelihood of demand side response, particular when it is cold.

EP stated that absolute demand would be helpful if it were placed on the cover page of the information website. EP stated that a trigger set at, say, 85 percent of peak day demand would be a crude indicator of supply demand balancing, but an understandable and useful indicator. AR stated that all comments were helpful.

SB noted that there was a difference between a supply/demand emergency and a safety monitor emergency. A SRS monitor that is breached and remains breached all winter does not imply that demand side response will be required all winter. SB stated that customers want bad day signals not bad winter signals.

It was agreed that NG needs to be clear when interruption will be used in an emergency triggered by a safety monitor breach. Whilst technically NG can interrupt in Stage 1 of an emergency, it may not be necessary to do so (i.e. if there is not a threat of a demand/supply emergency). A safety monitor breach provides the context for a System Alert in that it will notify customers of the 'tight days'.

EB noted that it was important that the breach of a safety monitor didn't trigger a gas NISM by itself, and therefore a NISM needed to be set based on several dimensions. EB noted that once in Stage 1 of a safety monitor emergency, it would be important to capture when commercial interruption was initiated as this would indicate when a supply/demand emergency was a real threat. NC stated that the issue was how to reflect to customers *when* NG was concerned, and *why* NG was concerned. Relying solely on a safety monitor could provide a false warning. SB stated that any system warning must be transparent, easy to understand and effective.

SB noted that it would be essential to get analysis and examples from NG of how many NISMs would have been called in past winters using several different methodologies for the setting of a NISM. The group agreed that possible definitions of 'System Alert (gas NISM)' would be a key area for discussion at the next sub-group meeting.

Action: NG to consider how a gas NISM should be developed and defined, and the implications on the SMPS (ACTIONED)

8. Presentation from NG, *Residual Balancing*, Eddie Blackburn

EB made a presentation to the group to clarify NG's interpretation of its balancing role and responsibilities.

JW noted that sub-group discussions have focused on NG taking balancing actions beyond the day which did not appear to be in line with how NG was interpreting its role.

EB stated that NG's main job was getting on with its Transportation service. NC asked whether NG were saying that its residual balancing role was secondary. EB stated that NG didn't need to take many balancing actions given that Users are able to that.

JW noted that in a tightly defined set of difficult circumstances, economic and efficient balancing actions need not necessarily be taken within day. JW further noted that this subtle yet important difference in the interpretation of NG's role was what the DSWG were hoping NG would explore.

EB noted that NG cannot forward contract for supplies and that is why it does not expand its role outside of the OCM. The current incentives in place ensure that NG does not need to take many balancing actions on the OCM.

FL questioned if a User were to offer to come off the system for a 5 day period, would NG accept that gas on the OCM.

EB stated that this can already happen, if the customer contracts to do so via its shipper. If a customer came off the system for 5 days NG would consider making an offer for the gas on the OCM, but only on the first day. Shippers and the customers would be responsible for making the necessary arrangements over the 5 days.

HB noted that a bid placed on the OCM on the first day which includes customers' costs for 5 days of interruption would be a very high priced bid. EB noted that this is assuming that a Shipper is seeking to cover all costs on the OCM that they've paid to a customer.

NC stated that the group had established there was nothing to say that NG couldn't contract forward, but commercially they chose not to.

SB stated that NG can't trade speculatively, but it can trade ahead of day. A speculative trade would be a breach of its licence, but efficient and economic trading ahead of time can be undertaken.

EP stated that NG can not take a view today on what the balancing requirements will be for tomorrow. HB stated that the group was talking about last resort contracting, not commercial interruption.

SI noted that using the OCM for this type of contract gets very complicated, and the OCM may not be fit for purpose. NC agreed but stated that the issue must be approached from the OCM angle given NG's interpretation of its role. NC further stated that NG seemed to be looking hard for reasons for not doing things. NC questioned whether there were ways of getting more volumes onto the market through the OCM mechanism and if not, what mechanisms are there.

CR noted that this is new ground. The group is looking for a market structure to exist in between "business as usual" and an emergency situation. NG is structuring its thinking around "business as usual".

EP noted that actions outside the OCM were not part of NG's balancing role. JW reiterated that the group was talking about a specific set of circumstances.

DJ asked whether there was a way to distinguish which bids on the OCM were offered for emergency purposes.

NC noted that rigidity exists in the market, and asked how this rigidity could be removed and what new mechanisms could be developed

EP noted that NC was talking about getting Shippers off the hook now that they have to balance 100 percent of the time following the acceptance of 013a. EP stated that since the removal of transco's right to interrupt at 85 percent, Shippers have not contracted for the remaining 15 percent.

SI asked whether the inability to access the OCM was driving the reluctance of customers to engage in contracts. Traditionally Shippers have not had to engage in these contracts, and while they have tried to go to the market recently to engage customers, there is reluctance. SI noted that perhaps consideration should be given to a licence requirement placed on suppliers obliging them to enter into demand side contracts (non-commercial). The terms of the contracts, at what price they would be willing to offer demand side response, could be left open and at the discretion of the customers.

JW stated that customers were saying there were circumstances where they do want to contract. The understanding given from APX was that the OCM was not a problem. SI noted that information asymmetry was the problem.

EB noted that if NG were to buy 10 units of gas on the OCM, this would have both a physical effect related to that volume of gas purchased and the price NG pays for those units would set cash out prices and act as an incentive for Shippers to alter their physical positions. Therefore, NG's purchase of 10 units of gas could, for example, result in 0 or 20 units of gas coming onto the system. In electricity, NG's balancing role is clearer due to gate closure, as only NG can take actions to balance the system during the period after gate closure.

EB noted that it had previously provided a paper on guidance on how to offer demand response on the OCM. It was noted that NG needed to recirculate this paper.

It was asked what the smallest bid placed on the OCM would need to be in order for NG to accept that bid. EB confirmed this was 4,000 therms but that this could be aggregated. It was felt that the sub group should discuss this issue further and aggregation of such bids.

There was a discussion on the System Management and Principles Statement (SMPS) with NG noting that no one had provided comments on the last consultation. This statement was rejected by the group as it was clear that customers and shippers had responded.

Action: NG to re circulate guidance on how to offer demand response on the OCM (ACTIONED)

Action: NG to consider whether changes in storage monitor information need to be included in the SMPS (ACTIONED)

9. Presentation from Nigel Cornwell – Issues for the short and long term (available on Ofgem’s website)

Nigel Cornwall gave a presentation on existing barriers to demand side response that would need to be overcome in the long-term to achieve more efficient market operation. The presentation paper is available on Ofgem’s website.

It was decided that these issues would need to be returned to by the group.

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