

## DEMAND SIDE WORKING GROUP MEETING MEETING NOTES

Venue: Ofgem, 9 Millbank, London  
Date: 20 April 2006 2–4.30pm

### Attendees

**Chairperson:** Sonia Brown (SB) Ofgem

Helen Connolly (HC)	Ofgem
Claire Rozyn (CR)	Ofgem
Raihana Braimah (RB)	Ofgem
Hannah Cook (HC)	Ofgem
Simon Bradbury (SB)	Ofgem
Tim Dewhurst (TD)	Ofgem
Clare Temperley (CT)	British Gas Business
Jeremy Nicholson (JN)	EIUG
Steve Ladle (SL)	Total Gas and Power Ltd
David Mitchell (DM)	NG
Helen Bray (HB)	CIA
Alastair Martin (AM)	Flexitricity
Alison Meldrum (AM1)	Corus
Chris Logue (CL)	National Grid
Paul Gallagher (PG)	National Grid
John Perkins (JP)	National Grid
Hugh Mortimer (HM)	BOC
Nigel Cornwall (NC)	CEA
Paul Savage (PS)	energywatch
Shelley Rouse (SR)	Statoil UK Ltd
Phil Broom (PB)	GdF
Martin Rawlings (MR)	Energytrak
Fiona Lewis (FL)	EDF Energy
Tio Rezvani (TR)	SSE
Charles Ruffell (CR)	RWE npower
Karen Jordan (KJ)	National Grid
Sebastian Eyre (SE)	JHA

### **1. Introduction**

SB opened by thanking all those present for finding time to attend the meeting today.

### **2. Review of**

#### **a) meeting notes from last DSWG meeting 12/01/06**

AM requested that a statement made on page 3 of the meeting notes 12/01/06 be withdrawn as she did not recall making it (actioned).

PG noted that there appeared to be some mis-interpretations of the action points from last meeting, but noted that these would be highlighted when reviewing the actions, the next agenda item.

There were no other comments on the meeting notes from 12/01/05. These will now be published on the website.

### **b) actions from DSWG sub-group meeting 12/01/06**

PG noted that the action points from last meeting with regard to NG's Information Systems would be addressed later in the meeting.

CR noted that Ofgem had completed two of its four actions and the remaining two would be rolled over to the next DSWG.

*Action: Ofgem to circulate information on the percentage of flows from IOG that flow to the LDZ's.*

*Action: Ofgem to share information on fuel switching with the DSWG as part of its demand side response review.*

### **3. Website Resilience – Ofgem, Tim Dewhurst**

*This presentation can be found on the Ofgem website Ofgem's Work/Wholesale Markets/DSWG: 20/04/06 DSWG: Website Resilience and Demand Forecasting Presentation, Ofgem.*

NC noted that he did not question the essential nature of getting National Grid's website right, but commented that the concept of providing incentives for something that was fundamental to the licence role of National Grid seemed the wrong way to approach the problem. SB considered that that could be said of all NG's incentives schemes. SB explained that any incentive scheme would be designed to ensure that the website was considered a high priority at NG and would aim to focus NG management's attentions to this area. Without such a scheme, SB noted that enforcement would be costly and time consuming. SB noted that any incentive scheme would operate such that NG would be rewarded when a baseline level of performance was beaten. TR noted the importance of setting the baseline level appropriately.

SB considered that feedback from customers over the winter regarding the value of a reliable website appeared to suggest that any added value from improvement of the website would be greater than the cost of providing NG with an incentive scheme. SB noted that today was essentially the beginning of a consultation period and feedback from the group was extremely important to ensure that the right information would be targeted and incentivised. JN commented that there was no question about the value of information to customers. JN considered that if one were to take the £1 billion cost to consumers figure, then the argument for an incentive scheme was compelling. SB noted that the current price control structure didn't offer a reward to NG to improve quality of service in this area.

SL asked at what point any incentive rewards would be paid to NG. SB stated that routes already existed for NG to receive and be paid *efficiently incurred expenditure*. SB clarified that the issue at present was that there was currently no reward for website resilience quality of service.

NC asked whether the incentive scheme would be aimed purely at existing processes, or whether Ofgem envisaged improvements in the scope and depth of information. SB noted that the scheme would not limit itself to the daily summary report.

AM noted that IT costs tend to follow an S curve and NG were currently on the flat of this curve. AM considered that the desire for more material information will soon increase which will be expensive, and someone will need to pay.

HB noted that the CIA had recorded eighty issues with the summary report since its commencement in November 2005 until the end of March 2006. HB considered the incentive scheme to be a great way forward and noted that she would send information out to CIA members for comments.

#### **4. Performance of the Information Exchange: IE3 & 006 - National Grid, Paul Gallagher**

*This presentation can be found on the Ofgem website: Ofgem's Work/Wholesale Markets/DSWG: 20/04/06 DSWG: IE3&006 Presentation, National Grid*

##### *IE3*

SB was of the view that NG's website had improved significantly in recent months, but noted that it still had a long way to go. SB reminded the Group that the daily summary report had initially been implemented at rapid timescales as a quick win in order to help industry better manage information heading into winter 05/06. SB considered that the question to consider now was how pro-active would NG be going forward.

KJ noted that NG welcomed new ideas and initiatives which would create joined up thinking on website issues, however, without clear scope, expectations could not be managed. KJ stated that NG wanted to ensure that the right information was provided to the market and that in providing that information, NG would be rewarded appropriately. KJ asked the Group what they considered to be the critical data - once determined, KJ stated that NG would go away and produce a strawman.

NC stated that further forward data would be welcomed but questioned the accuracy and possibility of such a request. NC clarified that a demand forecast of up to 5 working days (D-5 demand forecast) would be ideal. PB acknowledged that the lack of any forward demand forecast had been an issue in the week preceding the GBA in March. SB noted that this issue was also being discussed through the gas reserve workgroup meeting and that the Group would return to this during the GBA presentation.

PG wished to note that the issue of accuracy of a demand forecast had previously driven the decision not to take this idea forward in last years DSWG sub-groups.

##### *006*

PG stated that the publication of 006 information would utilise a new information system, but would look the same as any other NG information system.

SB wished to make it clear that NG's arrangements for the publication of 006 information would be subject to the Authorities decision on 006. SB stated that legally no decision had yet been made, and noted that any decision could be appealed and could impact on the arrangements being presented.

##### *Information*

SB wished to clarify that the NG website's *overall standard of performance* was a measure currently set out in the contract with its service provider. SB noted that

there was potential to capture this in an incentive scheme at a later date. SB stated that the *delivery of individual data or individual reports* was not captured at the moment and therefore this is what an incentive scheme would aim to capture – that is, delivery versus timeliness. SB noted that because system performance was not currently measured, it would be hard to establish a quality of service baseline.

SB considered that it would be useful for NG to place a survey on its website as a quick exercise to gain customer feedback on what information users valued, and the quality of service they expected.

*Action: NG to produce an 'information and website performance' pro-forma to circulate to the DSWG by COP 05/05/06. The DSWG will be asked to provide feedback to NG by 12/05/06. NG will then finalise the pro-forma and place it on its website for a several weeks, before presenting the overall feedback/findings to the DSWG on 20/06/06.*

## **5. Performance of the Information Exchange: GBA - National Grid, Chris Logue**

*This presentation can be found on the Ofgem website: Ofgem's Work/Wholesale Markets/DSWG: 20/04/06 DSWG: GBA Presentation, National Grid*

SB stated that it was important to understand that the high prices experienced on 13 March 2005 were not the cause or effect of the GBA itself. SB noted that the system started the day 30mcm short which is what triggered the high prices.

SB considered that the key learning point from the day the GBA was issued related to the lack of information available to key decision makers in the working week before the GBA which prevented parties responding as quickly as they could have. SB drew attention to the fact that more demand side response had occurred on the day following the GBA and also later in the week when timely decisions could be made.

The Group considered that it would be useful to understand what the forecast was for Monday 13 March and in the week leading up to it.

*Action: NG to calculate D-5 demand data for the ten highest demand days including for 13 March 2005 in order for the DSWG to better understand whether the availability of forecast data would have been useful in the lead up to the GBA. To be presented at the next DSWG.*

TR considered that a demand forecast would not be useful if it couldn't be relied upon. TR noted that March 13 had been a strange day - the met office forecast had been 3-5 degrees a drift and so there was no way an accurate demand forecast could have been made. SB was of the view that if forecast demand information was released to the market on a routine basis, the market would learn the value to place on that information. SB considered that the utilization of the GBA trigger could be significantly more if, for example, the market were to see delays in the new infrastructure set to come on line this year, and therefore consideration of the publication of forward data to encourage immediate response was extremely important.

NC also considered that publication of forward demand and supply information was very important.

HB considered that from the CIA's perspective, it was good to be looking at this area of information.

AM asked SB whether the method for forecasting demand had changed since the sale of the Distribution Network's last year. SB noted that DN's would not be providing individual LDZ demand forecasts to the market, as this would likely lead to fragmentation of the NBP. SB clarified that NG NTS was responsible for piecing together the overall level of total system demand. SB also clarified that total NTS demand would be considered in the context of any incentive scheme.

## **6. Demand side response this winter: update from 1 on 1 meetings – Ofgem, Helen Connolly**

*This presentation can be found on the Ofgem website: Ofgem's Work/Wholesale Markets/DSWG: 20/04/06 DSWG: Demand side response this winter & 1 on 1 update, Ofgem*

NC noted that he disagreed with a point made in the presentation that demand side response had been better than expected over the winter. NC considered that while demand side response by CCGTs turned out to be better than expected, demand side response from customers had been disappointing.

JN was of the view that purchasing decisions would change next year as a result of the experiences of this winter. However, JN noted that it would not be the case that demand side response would not occur going forward but rather, that demand side response would appear in a different form than it had previously.

SB considered that there may have been an issue with I&C customers not having title to gas, causing lower levels of demand side response this winter.

AM was of the view that sophistication was key to participation, noting that CCGT demand response was seen before customer response simply because it was more economic and efficient for CCGT's to respond first. SB agreed and noted that there were no concerns with regard to the order of demand side response coming off the system. SB re-iterated that the levels of demand side response had been positive and noted that CCGT's had provided a response the size of Rough storage.

NC considered that there was a need for further in-depth analysis looking at demand side response behaviour in November 2005 and on 13 March 2006. NC stated that he had seen no new analysis that gets to the bottom of this. SB noted that analysis of NTS and LDZ demand side response had been undertaken by NG and Ofgem and can be found on the Ofgem website.

SB also stated it was important to note that some customers who did have title to gas, who were able to switch to alternate fuels, and who were able to sell gas back, did behave like CCGTs which was extremely positive.

## **7. Gas Reserve Discussion Paper – GdF, Phil Broom**

*This presentation can be found on the Ofgem website: Ofgem's Work/Wholesale Markets/DSWG: 20/04/06 DSWG: Gas Reserve Discussion paper, GdF*

In response to the views outlined in PB's presentation, SB noted that there was also a case for not moving away from the current Gas Safety Reserve arrangements. SB stated that there appeared to be no reason why shippers couldn't offer gas reserve contracts to customers in the same manner PB's

presentation suggested NG offer these contracts. SB reminded the Group that a gas reserve market would increase NG's residual balancing role. SB also stated that any costs incurred in such a market would be targeted through cash-out, effectively increasing the complexity of the current cashout regime.

SB stated that there were two opposing schools of thought on gas contingency arrangements and that the arguments for each were very finely balanced. SB informed the Group that Ofgem had put together a pro-forma in an effort to quantify the problems with the current regime, and noted that this had been circulated to the Gas Reserve Working Group.

AM1 asked the Group what would be involved in creating a gas reserve market. The Group understood that changes would be substantial and would involve significant UNC amendments and incentive adjustments.

JN stated that the EIUG were in favour of moving in the 'gas reserve' direction. JN considered that domestic customers appeared to have a higher degree of security of supply of gas than industrials, and considered that industrials were not being adequately compensated for this. JN considered that changes to the contingency arrangements may be able to address this inefficiency. SB agreed, stating that there did appear to be an inefficiency in the market. SB considered that industries attention needed to focus on getting into this detail.

NC asked whether industry could expect a wider review of NG's balancing role. SB clarified that there was nothing precluding NG from, for example, transacting with customers for demand side response three years ahead. However, the mechanics of the UNC (and incentives) were the problem. Any limitations on NG contracting directly with customers were a direct consequence of the UNC.

HB commented that the possible aggregation of 10 million therm sites indicated a significant volume of demand side response could be available.