

Demand Side Working Group Meeting 14 July 2009 (Ofgem, London)

Attendees

Jo Witters (Chair)	Ofgem
Antony Miller	Ofgem
Elio Zammuto	Ofgem
Mark Feather (Part)	Ofgem
Dora Guzeleva (Part)	Ofgem
Ben Woodside (Part)	Ofgem
Chris Shanley	National Grid
Jenny Phillips	National Grid
Graham Hathaway	National Grid
John Perkins	National Grid
Alison Meldrum	Corus
Claire Gibney	NHS (PASA)
Esther Sutton	E.on UK
John Bradley	Joint Office
Ed Reed	Cornwall Energy
Eddie Proffitt	MEUC
Murray Birt	CBI
Chris Webb	BOC Gases
Laura Cohen	British Ceramic Confederation
Jeremy Nicholson	EIUG
Andrew McKenzie	Ineos Chlor

Apologies

Jonathon Scott	Rio Tinto Alcan
Charles Ruffell	RWEnpower
David Wildash	National Grid

NB: All of the Presentations for DSWG can be located at:

<http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Pages/DemSideWG.aspx>

1. Introductions (Ofgem)

1.1. Jo Witters welcomed the attendees.

2. Agenda Item 1: Review of the minutes (All)

2.1. The minutes of the previous meeting were approved by group members.

3. Agenda Item 2: SO Incentives

Ofgem open letter (Jo Witters, Ofgem)

3.1. Ofgem has published an open letter to National Grid outlining areas for further assessment as part of its development of the system operator (SO) incentive package starting from for April 2010. Specific aspects of the scheme that Ofgem

has asked National Grid to assess are to what extent the forward looking incentive scheme can apply to longer periods than on an annual basis and also to what extent different 'pots' within the incentive package can or should be bundled or unbundled. This letter can be found on Ofgems website [<http://www.ofgem.gov.uk/Markets/WhlMkts/EffSystemOps/SystOpIncent/Documents1/Open%20Letter%20final.pdf>].

Initial thoughts (John Perkins, National Grid)

- 3.2. National Grid delivered a presentation on its initial thoughts regarding the development of the SO incentive scheme to run from April 2010. (see SO incentives – combined gas and electricity slides <http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/SO%20Incentives.pdf>)
- 3.3. There has been general support for the consultation process carried out over the previous year for developing SO incentives. It is important that incentives are regularly reviewed so that financial rewards are linked to improvements rather than expected business practices – for example, are there ways in which National Grid can further improve the way in which it provides information to the market? And, what is the appropriate commercial incentive for such improving information quality/usability?
- 3.4. Greater details regarding gas and electricity SO incentives are provided in the attached presentation. The main points for industry stakeholders are that:
 - Consultation processes are currently underway, with National Grid publishing a number of 'mini' consultations on key aspects of the incentive package over the summer.
 - Some of these incentives are tackling new issues such as timeframe for incentives, environmental issues and system maintenance. This adds importance to gaining stakeholder feedback.
 - National Grid is actively seeking views from a broader range of stakeholders and is willing to visit stakeholders, or arrange meetings in locations that are convenient to a broader range of stakeholders. Contact details are provided in the attached presentation.
 - Stakeholder views may be considered outside formal consultation periods. However, stakeholders should note that National Grid intends to publish its initial proposals in October.
- 3.5. Group members noted that the consultation documents need to explain how changes to SO incentives feed through to their bottom line. That is, what are the net benefits (financial or otherwise) to the industry and end users of National Grid receiving SO incentives, and how the proposed changes to SO incentives will change the net benefits.
- 3.6. In addition, the group wanted consultation documents to provide meaningful comparisons across years. This would allow stakeholders to see the impact of previous incentives the proposed changes.
 - **ACTION ITEM:** John Perkins noted that National Grid would take the group members requests into consideration in the drafting SO incentive consultation documents. Nation Grid will also consider developing a short paper clearly explaining what each of the incentives are and how they interact with each other.

- 3.7. Ofgem noted that it has agreed to submit views on National Grid's initial proposals in November of this year. This is intended to help inform National Grid and industry about its thinking in relation to SO incentives prior to the final consultation and determination. It is hoped that this will be of benefit to National Grid and industry stakeholders.

4. Agenda Item 4: Winter Gas Proposals – Information enhancements (Jenny Phillips, National Grid)

- 4.1. National Grid provided a presentation on enhanced information provision and revision of the gas balancing alert for winter 2009. (see Gas Balancing Winter: [http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/GAs%20Balancing%20Winter%20\(NG\).pdf](http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/GAs%20Balancing%20Winter%20(NG).pdf))

- 4.2. The key points were:

- There will be no change to the calculation of the safety monitor level space requirements. However, to prevent an unnecessary trigger of the alert, the three types of storage (LRS, MRS and SRS) will be aggregated into a single 'total storage figure'.
- National Grid will not be removing information from its website – disaggregated information in respect of LRS, MRS and SRS stocks will still remain available on the website – but the safety monitor methodology will now relate to the total of these stock levels rather than individual storage types.
- National Grid is also investigating way of improving information provision regarding supply and demand forecasts. Currently, National Grid publish most of this information, however, it can be difficult for industry stakeholders to find on the website.
- National Grid is also investigating what other information industry stakeholders would find useful, and whether different formats for providing information (e.g. traffic lights status reporting for the safety monitor) could improve usability.
- A draft proposal for a modification to change the GBA trigger to be consistent with Safety Monitor assumptions and improve market information will be raised at the next transmission work stream meeting.
- National Grid will be running workshops on **29 July** and **19 August** 2009. In addition to this, Jenny Phillips is happy to speak to industry stakeholders directly. Her contact details are provided in the presentation.

- 4.3. The working group commented that information relating to LNG is increasingly important for customers seeking to understand the stock and flows of gas into the GB market. It would be beneficial if this information was readily accessible for customers (i.e. better links to other gas storage information). It would also be beneficial if the information could be made more consistent with gas storage information (for example consistent measurement units).

- **ACTION ITEM:** National Grid will look at the information on its website, and feed DSWG's views into the discussion at the workshop in August.

- 4.4. It was also noted that while potentially beneficial a traffic lights approach to reporting the status of the safety monitor could also be easily misinterpreted, particularly by the press.

5. Agenda Item 5: Industry Governance Review– Update on progress (Mark Feather, Ofgem)

- 5.1. Ofgem informed the group about recent development in the Industry Codes Governance Review (ICGR). This work largely relates to how industry codes are managed.
- 5.2. There are five streams to this review.
- 5.3. The most significant piece of this review is the Major Policy Review and self governance work. In this work, Ofgem is seeking more powers to direct changes in industry codes for significant policy issues (e.g. environmental matters and security of supply). Whilst the industry code arrangements have worked well in delivering incremental reforms, they have proved deficient in dealing with major policy reforms such as electricity transmission access. Given the significant environmental and security of supply challenges faces the industry over coming years, it is important that the industry code governance arrangements are robust to meeting these challenges. In this respect the Major Policy Review process provides a framework for Ofgem to lead on the delivery of reforms (where necessary) via a transparent, holistic and consultative process.
- 5.4. It is expected that Major Policy Reviews would only be used for one or two issues each year.
- 5.5. In respect of the self governance proposals, Ofgem would seek to remove itself from acting as decision maker on certain code modification proposals where the affect of the proposal on competition or customers was negligible. In effect, the industry would have greater powers to self regulate in some areas.
- 5.6. Ofgem should release a consultation paper on this work within the next month.
- 5.7. A second stream of the ICGR relates to the reform of the code administration arrangements. This work-strand is focussed on increasing the accountability of code administrators for the costs and quality of service that they provide. At this point it is also felt that code change process is dominated by the large energy generators/suppliers. This limits the ability of business and industry consumers to influence code development. The work-strand also therefore focuses on introducing mechanisms that would potentially assist small market participants and consumer representatives in engaging in the codes process.
- 5.8. Ofgem is also considering what options there may exist to introduce consumer voting rights on the UNC Panel, although is mindful of the practical difficulties in making any such changes.
- 5.9. It was noted that Consumer Focus has a presence in relation to the administration of some codes such as BSC and CUSC and could be provided voting rights on the UNC Panel. Demand side working group members noted that in many cases the needs of business customers would align with the needs of domestic consumers which means there could be some potential for trying to work with Consumer Focus. It was accepted that working with business consumers in this way would strictly be outside the remit of Consumer Focus, but it might provide a practicable solution.
 - **ACTION ITEM:** Ofgem will take this idea into consideration.
- 5.10. The third stream relates to changing the governance of the charging methodologies (for network charges) so that stakeholders other than transmission operators/owners can propose changes to these methodologies.

- 5.11. A consultation paper on this matter will be released in the next month.
- 5.12. The fourth stream relates to how environmental costs are accounted for in the code modification assessment process. Ofgem has already issued formal guidance to code panels and industry on this issue and in June issued a consultation proposing that licences are modified to make explicit the need for code panels and industry participants to consider these costs.
- 5.13. The fifth stream relates to the Code Administration Working Group and the work it has undertaken to align code change practices and rules across the BSC, UNC and CUSC. Ofgem released an open letter on this issue in April (insert link).

6. Modification Proposal 260 - Revision of the Post-emergency Claims Arrangements (Chris Shanley, National Grid)

- 6.1. National Grid provided a presentation pertaining to Modification Proposal 260 - Revision of the Post-emergency Claims Arrangements (see <http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Mod260.pdf>).
- 6.2. The aims of this proposal are to:
- Introduce improvements that will bring greater clarity and definition to the UNC post-emergency claims arrangements.
 - Provide a balance between providing a cash-out price that does not excessively penalise Users who are unable to respond , whilst encouraging additional non-UKCS gas into the GB and/or further demand-side reductions during a Gas Deficit Emergency (GDE)
- 6.3. It is expected that the proposal will be issued for consultation in August. Interested stakeholders can contact Steve Pownall (National Grid) with any queries or comments. (See slides for contact details).

7. Agenda Item 6: Other related work: Brief updates

UNC Mod 244: Amending DM Supply Point Data for Sites with Significant Changes in Usage (Dora Guzeleva, Ofgem)

- 7.1. Ofgem noted that its decision on this modification has been published¹
- 7.2. The Authority has concluded that the various proposed modifications (244, 244a and 244b) in some cases were in direct conflict with the relevant objectives. This was detailed in the Authority decision on the proposed modifications. The Authority was not confident that the proposals, as put forward, would not lead to a significant and inappropriate increase in the share of GDN costs that are paid for by the rest of the customers.
- 7.3. For the reasons outlined in the Authority's decision of 20 May 2009 Ofgem expects GDNs to carry out further analysis and consider alternative solutions to target the potential problem identified by their customers. In particular, the GDNs should consider the impacts of any alternative proposals in potentially shifting costs to other customers. In doing this Ofgem would expect GDNs to work closely with shippers as well as customers.

¹ <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC244D.pdf>

- 7.4. There are some forthcoming meetings between Ofgem and the GDN regulation managers and we will enquire regarding the status of GDNs considerations and analysis on this issue. We will also convey our expectation that this matter is being addressed and industry advised of the progress made by the GDNs as a matter of urgency.
- 7.5. Some members of the working group noted their strong disappointment at Ofgem's decision.
- 7.6. Concerns were also raised regarding the lack of any timeframes being placed on GDNs to provide the relevant information to Ofgem so that it may reconsider its decision. It was argued that GDNs do not face any incentive to provide the relevant information in timeframe that would meet the 1 October 2009 deadline for the modification to have an impact on the market.
- 7.7. Action on this matter is required before 1 October 2009.
- **ACTION ITEM:** Ofgem agreed that it would consider what actions it could take to encourage that DNOs provide the relevant information in a timely manner. This could be done at the next Ofgem/GDN meeting.
 - **ACTION ITEM:** Ofgem will keep the DSWG informed of developments in relation to this matter. Given timing of the next meeting this will be done via email.

Gas system flexibility (Antony Miller, Ofgem)

- 7.8. A handout summarising the main outcomes of the gas flexibility workshop run by National Grid once circulated by National Grid will be circulated to the group. It was noted that Ofgem is preparing a consultation paper with the intention of publishing it within the next month. This paper will look at the adequacy of current system flexibility management tools, the merits of additional data release by NGG ahead of this winter and the longer term scenario for flexibility in the light of changing system usage.

Project Discovery (Jo Witters, Ofgem)

- 7.9. The group was informed of a Ofgem's public statement of 26 June 2009 regarding Project Discovery (<http://www.ofgem.gov.uk/Markets/WHLMKTS/Discovery/Documents1/Discovery%20status%20report.pdf>). The group was asked to note that Ofgem will be publishing further documents seeking stakeholder views on security of supply scenarios in the autumn and a more comprehensive report detailing policy options at the turn of the year.
- **ACTION ITEM:** Ofgem agreed to keep the group informed of likely release dates and other relevant developments in relation to Project Discovery in an ongoing basis.

8. Any other business

MIPI system seminar (Chris Shanley, National Grid)

- 8.1. National Grid is holding a Seminar at the Elexon building on the 18th August. This Seminar will cover the enhancements to the Market Information System that will be introduced as part of Phase 2 of the Program that began in 2007. If you would like more information or wish to register for this event please go to the following web page (<http://www.nationalgrid.com/uk/Gas/Data/events.htm>) or alternatively please send an email to Sysop.centre.reporting@uk.ngrid.com.

9. Date of next meeting

9.1. The next meeting date is 27 October 2009, which coincides with the date for the next LUG meeting

- **ACTION ITEM:** Ofgem to check whether there is any overlap with a proposed workshop for Project Discovery on this date.