

Demand Side Working Group Meeting

26 March 2009 (Ofgem, London)

1. Attendees

Andrew Wallace (Chair)	Ofgem
Ben Nunn	Ofgem
Andrew Pester (Part)	Ofgem
Alessandro Rubino (Part)	Ofgem
Indra Thillainathan (Part)	Ofgem
Dora Guzeleva (Part)	Ofgem
Graham Hathaway	National Grid
David Wildash	National Grid
John Costa	EDF Energy
Dan Mauger	Demand Logic
Richard Fairholme	E.ON UK
Emrah Cevik	Elexon
Claire Gibney	NHS (PASA)
Alison Meldrum	Corus
Bob Spears	UCC
Gareth Davies	CIA
John Bradley	Joint Office
Eddie Proffitt	MEUC
Ed Reed	Cornwall Energy
Richard Street (Part)	Corona

2. Introductions

AW began by welcoming group members.

3. Review of meeting notes and actions from last DSWG meeting – 5/11/2008

3.1. The minutes from the previous meeting were approved by group members.

3.2. AW noted that there was one action from the last DSWG meeting on gas emergency cash-out procedures. AW said that there was a working group facilitated by the Joint Office which was already considering this matter.

4. Introduction to Project Discovery – Andrew Pester (Ofgem)

4.1. AP gave a verbal update on project discovery. AP said that project discovery was a medium-term gas and electricity security of supply project. The need for project discovery had arisen out of several new factors including the impact of the credit crunch, more stringent environmental legislations/ targets (e.g. LCPD, IED, EU ETS) and the decline in UKCS (and the associated energy requirements from imports). The project team will report to GEMA this summer. AP noted that the project team is led by Andrew Wright and Ian Marlee.

4.2. ER asked what time frame the project was looking at and whether the project would link into other Ofgem work streams (e.g. RPI-X@20). AP said that the project will focus on 2016 and will form a key component of Ofgem's overall strategy which includes RPI-X@20 and Len's projects etc.. RF asked whether the report will be looking at issues raised by

European gas security of supply issues - AP said that the review will address all relevant issues within given timeframes and resources. GD asked whether Ofgem was liaising with DECC on project discovery, AP said the project team are liaising with DECC and that the project findings will also be shared with DECC.

4.3. CG asked whether the report would be a regular report and whether it would replace something. AP said that it was a separate project, which is being undertaken in addition to routine security of supply monitoring/ publications. AP noted that Discovery will inform and draw on ongoing work on security of supply (e.g. EMO and National Grid's TYS and SYS). BS urged Ofgem to publish the findings of Project Discovery. AP noted that the project team will report its finding to GEMA in the Summer where potential next steps may be discussed.

5. Short Term Frequency Response, Fast Reserve, Firm Frequency Response, System Operator Review – David Wildash and Graham Hathaway (National Grid)

5.1. DW and GH started by giving an update on near-term demand side opportunities and the system operator review. The presentations are part of the supporting materials to these minutes and are available on Ofgem's website.

Short Term Operating Reserve (STOR)

5.2. DW explained that STOR is a manually instructed delivery of active power from generation and/or demand reduction. STOR providers are given payments for delivery of this service. There are technical requirements and monitoring of service provision and there are opportunities for large electricity users to participate in providing STOR to National Grid. DW said there was a fair amount of flexibility within the product, for instance providers can declare themselves unavailable if they cannot provide STOR in a particular period and there is flexibility in contracts to deal with periodic fluctuations in a large users demand profile.

5.3. There were several questions raised on the monitoring and enforcement of STOR, DW said that an SRD (standing reserve dispatcher) was required. This is a computer that records and sends metering information to National Grid. Also, post-event (after STOR had been activated), National Grid could send out personnel to check that the STOR requirement has happened. In response to AM's question on becoming your own aggregator DW said that it was possible.

5.4. STOR is also available as a longer-term product, in June 08 there was a change from a 2-year service to a 10-year service, National Grid were looking at indexation issues in order to price for that longer period. AM commented that the approach in electricity seemed to be more flexible than gas. DW commented that gas and electricity have different natures and that a gas shortage would have potentially more serious implications.

5.5. BS asked whether there was a tender to provide services for a once in a 'blue moon' scenario e.g. as an emergency measure, to stop the lights going out. National Grid commented that it had come to the meeting to get views such as this from large electricity users on the types of products that they want to make available.

Fast Reserve

5.6. DW next discussed fast reserve; fast reserve is a manually instructed rapid and flexible change in active power output or demand. DW said that STOR is the product with the longest available lead time for provision whilst fast reserve required a response within 2 minutes. DW set-out the technical requirements in the presentation which is part of the supporting materials with the minutes.

5.7. Fast reserve is procured by National Grid through a competitive monthly tender process and bilaterally where the tender requirements cannot be fully met (i.e. National Grid can look for solutions and design specific contracts). The time requirement of fast reserve is non-specific but for large users would typically require a fast burst reduction in energy until the system is restored.

5.8. EP commented that the logical route, rather than a tendering exercise, was for a forward price premium. There were also comments on the short nature of the contracts, DW said that it is possible that contracts could be longer and could follow the route of STOR.

Frequency Response

5.9. GH described frequency response as an automatic change in active power output or demand in response to a frequency change. He highlighted that frequency response costs were going up. The costs of commercial (i.e. non-mandatory) frequency response was £61million in 2007/8 of which around 15% was from the demand side. JC asked what the minimum procurement requirement was GH said that there was a requirement of 3MW and that the hardware for the demand side response was a little more complex than for the previously mentioned services. JC also asked how National Grid chose who is taken-off, GH said that a computer programme determined the optimum approach and a signal was automatically sent to a customer on a 1-for-1 basis. He added that the demand side was just as important as the generation side in providing frequency response.

5.10. Firm Frequency Response (FFR) was the next item discussed. GH said that FFR was the provision of dynamic or non-dynamic frequency response and is procured on a GB-wide tender. A minimum 3MW response energy was required. Payments for FFR were made through an availability (tendered), nomination (tendered) and response energy fee. The availability fee was calculated via the market information report. BS asked whether there was a quote for short/term or long term submissions - GH said that the price is not calculated for FFR and that he would get a price for BS.

Action: GH to provide information on the price of FFR

5.11. GH noted that they were losing a significant provider of frequency response in September which required replacement.

5.12. On static response requirement, GH noted that although there was a requirement for delivery in less than 2 seconds, there is a possibility for more flexible terms and there will be a call for tenders and that NG was taking a pro-active approach.

5.13. GH wanted to discuss with the group possible channels for drawing large energy user's attention to FFR. EP said that for gas interruptible customers the Gas Distribution Network Operators held one day conferences and suggested that National grid could follow this model. AW questioned whether Ofgem could assist in bringing the attention of the products to the markets attention. However, there was some comment that most electricity consumers were aware, but they might not be aware of the changes and flexible approach to the products.

5.14. There was some general discussion on the presentation, the group felt that electricity was very flexible and that participation was dependent on exact requirements. The group also felt that the tender process was not particularly onerous.

System Operator Review

5.15. National Grid said that it would shortly be issuing a consultation with the industry on system operator issues. The review sets out scenarios and considers what balancing services should be available. The review will look at how the system will be managed out to

2030, particularly in light of issues relating to wind power, the LCPD and nuclear power. National Grid hoped to begin consultation with industry at the start of May. National Grid requested feedback from industry on both the generation and demand side.

5.16. National Grid highlighted that there were plenty of opportunities for new entrants to provide balancing services in particular as National Grid was expecting to lose some existing providers and that there may be a STOR requirement of just below 6GW by 2020/21.

6. UNC 219 Update – Andrew Wallace (Ofgem)

6.1. AW gave a brief presentation on UNC219. This was a modification to the gas UNC on publication of UK wholesale gas market liquidity data. AW noted that Ofgem had approved UNC219 on 5 March 2009. The modification requires National Grid to publish data on gas trades in graphical form as part of its daily summary report. AW said that although the data is already available, UNC219 requires that the data is provided in an easily accessible graphical format. The proposal will be implemented on 11 November 2009.

6.2. The group discussed the length of time it would take to implement UNC219 given that the data was already available. AW noted that there were cost implications and that it was more efficient to wrap up implementation with the delivery of MIPI 2 (market information provision initiative phase 2). The group were pleased that the modification was approved.

7. Update on UNC Modification Proposal 244 – “Amending DM Supply Point Data for Sites with Significant Changes in Usage” – Richard Street (Corona Energy)

7.1. The item was introduced by AM who described the aims of the modification proposals to the group. She said that the modification was raised in relation to significant changes in gas usage at sites as a result of the current economic climate. It would allow the capacity element of DM transportation charges to be adjusted through a reduction of the System Off-take Quantity (SOQ) at a site on a more flexible basis. Current arrangements meant that this was not such an issue in the NDM market. AM said the modification make the current arrangements more efficient as shippers will be able to adjust supply point data for DM sites to address significant changes in usage. AM expressed frustration that the progress of the modification seemed slow and was originally raised as a urgent modification. IT said in response that Ofgem wanted to ensure that all parties were consulted fully on this proposal.

7.2. JB said that a special meeting of the panel would be held on 2 April where it would be decided whether the proposal would go out for consultation [Note that the 2 April panel meeting agreed to send the proposal out to consultation].

7.3. RS joined the meeting and gave an update on discussions at that morning’s modification working group on UNC 244. RS clarified some of the main points around the modification proposals. He said that a DM site would only be able to adjust its SOQ where the change was likely to be greater than 20%. On this basis he expected that 30% or more of DM sites would be eligible. RS said that the modification proposal would mean that any adjustment to transportation charges associated with the change would be spread across the market. RS also said the modification proposal included a mechanism to recover any avoided transportation charges if the change was seen to only be a temporary feature.

7.4. Xoserve had commented that if there were more than 100 sites changing their usage patterns then there would be a requirement for a robust system solution i.e. it would not be able to be handled on a manual basis.

7.5. CG expressed concern that some parties would be subsidising another users as any shortfall in transportation costs would be smeared back. This was accepted but other group members felt that the modification would improve the situation as this cost reallocation would relatively small.

7.6. RS finished off by saying that the modification puts an obligation on the networks to come up with a process to implement the proposal and that no other alternatives had yet been suggested.

8. AOB

8.1. The group did not raise any other matters of business.

9. Date of next meeting

9.1. The group agreed to meet in July, possibly to coincide with the outcomes of Project Discovery. The group preferred having the meeting on the same day as LUG (Large Users Group) where possible.