

Demand Side Working Group Meeting

9 February 2010 (Ofgem, London)

Attendees

Antony Miller (Chair)	Ofgem
Krystle Thorpe	Ofgem
Ben Woodside	Ofgem
Tom Handysides	Ofgem
Sabreena Juneja	Ofgem
Mathieu Pearson	Ofgem
Tom Corcut	Ofgem
Mike Thorne	NGrid
Steve Pownall	NGrid
David Wildash	NGrid
Eddie Proffitt	MEUC
Esther Sutton	EON
Steve Ladle	Gemserv
Scott McGaraghan	Enernoc
Claire Gibney	NHS
Sebastian Eyre	EDF energy
Steve Wilkin	Elexon
Laura Cohen	Ceramfed
Dan Jerwood	GDF
Richard Hall	Consumer Focus
Gareth Davis	CIA
Tim Davis (conference call)	Gas Governance

Apologies

Jonathan Scott	Rio Tinto
Abigail Hall	Consumer Focus
Tim Davis	Gas Governance
Ritchard Hewitt	NGrid
Alison Porter	Cornwall Energy
Christiane Sykes	Statoil
Alan Raper	NGrid
Chris Logue	NGrid
Chris Shanley	NGrid
Alan Raper	NGrid
Paul Auckland	NGrid
Eddie Blackburn	NGrid
John Perkins	NGrid
Norman Sambells	CIBA
Steve Wilkin	Elexon
Mark Linke	Centrica
Jerry Hutton	British Sugar
Andrew MacKenzie	Ineoschlo
Stefan Leedham	EDF
Andrew Pearce	BP
Chris Webb	BOC
Graham Hathaway	NGrid
Richard Fairholme	EON
Charles Ruffell	N Power

Scott Buckleton	Hanson
Ed Reed	Cornwall Energy
Fitchett	Ineoschlor
Shelley Rouse	Statoil
Richard Street	Corona Energy
James Lawson	Centrica

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

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

1. Introductions (Antony Miller, Ofgem)

1.1. Antony Miller welcomed the attendees.

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

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

3. Agenda Item 2: January 2010 Gas Balancing Alerts (GBAs) (Steve Pownall, Gas Codes)

3.1. National Grid provided a presentation on Gas Balancing Alerts, January 2010 ([see http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/DSWG%20Feb%202010.pdf](http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/DSWG%20Feb%202010.pdf))

3.2. National Grid highlighted the four GBAs in January, giving indications of the behaviours within the market.

3.2.1. National Grid issued GBAs on the 4th, 7th, 9th and 11th January 2010.

3.2.2. The specific triggers and nature of the market response for each GBA varied. However, media coverage of each GBA tended to exaggerate the risks to the market.

3.2.3. NG is currently reviewing the effectiveness of GBA arrangements/processes and manner in which the markets are responding. Some interesting early observations are:

3.2.3.1. In general, the market responded effectively to the GBAs and there were no significant risks to the integrity of the network. Where interruptions did occur on the network, it was not due to a lack of gas availability, but failures with the (non-NG) infrastructure.

3.2.3.1.1. DSWG members questioned whether this would be the case in the coming year as the number of companies on interruptible contracts was going to significantly decline due to the change in policy. NG noted that there is an obligation on DNs to have sufficient capacity.

3.2.3.2. Interestingly, the responses to the GBAs were driven by the supply side rather than the demand side. It was expected that demand side would respond more.

3.2.3.2.1. DSWG members noted that the current price signals are not sharp enough to elicit a demand side response. In addition, other Government policy are resulting in large users having to adopt

around the clock production processes, that cannot be turned on and off quickly.

3.2.3.3. Gas balancing alerts should take less time to be triggered. On the 4th of January, the GBA took an hour to trigger, while on other days the GBAs took 20mins. National Grid changed its approach, and instead chose to trigger the GBA rather than attempt to take balancing actions.

3.2.3.4. On some of the days, the response to the GBA led to market going long. One reason for this is that the GBAs cannot be stopped within the gas day once triggered. However, it may also be due to difficulties in providing the market with the relevant information. The NG system was not able to provide the relevant information to market participants on some of the days because the high levels of demand strained the systems capacity.

3.2.3.4.1. DSWG members suggested that NG should investigate back up systems (such as call centres or back-up websites) to cope with days of significant demand.

3.2.3.4.2. It was noted by National Grid, and also stated that it was the view of the HSE, that it is easier to manage a system that is long than one that is short as it is less likely to reach emergency levels.

3.3. DSWG members agreed that the policy surrounding interruptible contracts was one that the group was interested in discussing further. It was requested, that the next meeting should include, a more comprehensive discussion of the issue with other relevant stakeholders (including representatives from the Distribution Networks).

3.4. Comments or concerns regarding GBA within day process alert concerns – contact Steve Pownall (steve.pownall@uk.ngrid.com).

3.5. Mathieu Pearson, Senior Policy Analyst from Ofgem, can also be contacted regarding Ofgem's policy on interruptible contracts (mathieu.pearson@ofgem.gov.uk).

3.6. **ACTION:** DSWG members agreed that it would be useful to discuss the policy surrounding interruptible contracts at the next meeting. It was requested that representatives from the Distribution Networks be invited to attend.

4. Agenda Item 3: Modifications and other work updates

4.1. UNC Mod 260: Revision of the Post-emergency Claims Arrangements update (Antony Miller, Ofgem)

4.1.1. UNC 260 was approved on 5th Nov. The details of the mod were described at the last DSWG and can be found in the last meeting's minutes. (see <http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/DSWG%20Minutes%2027%20Oct%2009.pdf>).

4.1.2. Post Emergency Claims Economic Assessment Guidelines are available online and are being reviewed in light of some consultation responses. Anyone who wishes to discuss the guidelines can contact Jamie Black (jamie.black@ofgem.gov.uk) or Ben Woodside (ben.woodside@ofgem.gov.uk).

5. Agenda Item 4: Project Discovery (Ben Woodside, Ofgem)

- 5.1. Ofgem provided a presentation regarding the February publication of the Project Discovery Consultation document on medium and long term security of supply (see [http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Project%20Disco_Feb10_BW%20\(2\).pdf](http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Project%20Disco_Feb10_BW%20(2).pdf))
- 5.2. The Report looks at major challenges over the next 10 years facing security of supply, for example as North Sea supplies diminish and environmental legislation requires the closure of a number of power stations.
- 5.3. Ofgem explained that the project has now completed its 2nd and 3rd stages following the consultation document on the first stage (scenario analysis) in October 2009. The recent document consults on the appraisal of the current arrangements and potential policy responses (4th February 2010).
- 5.4. It was noted that the feed back from the October consultation was very helpful and allowed Ofgem to refine its model and consider other relevant scenarios. Ofgem said that it agreed in principle with comments that multiple shocks could be considered simultaneously, however given the extent of the challenges that it would not fundamentally change the findings of the work.
- 5.5. Ofgem has identified a number of significant challenges for security of supply (slide 9). In short, the GB market needs unprecedented levels of investment (approximately £200 billion). However the scale of that investment in difficult financial conditions; uncertainty associated with carbon prices; weak short term price signals; challenges associated with being part of an integrated European gas market; and concerns regarding the impact on consumer prices all cause us concern.
- 5.6. In response to these challenges, Ofgem has proposed a range of policy packages that range from low levels of market intervention (targeted reforms) to extreme levels of intervention (a central energy buyer) (slides 11 and 12).
- 5.7. Ofgem noted that the details that would underlie these policy options are still being considered. Ofgem is interested in stakeholders' views on the various proposed policy options. The consultation period concludes on 31 March 2010.
 - 5.7.1. One DSWG member questioned whether the Ofgem's costing incorporated some of the Government's proposed carbon (fossil fuel) charges. Ofgem noted that these costs had not been included. It was suggested that these charges would add a significant amount to investment costs.
 - 5.7.2. DSWG members also noted that some of the policy measures were particularly extreme and there would be numerous challenges associated with having a national buyer. Another member suggested that Ofgem could have considered a nationalisation option.
 - 5.7.3. Some members of the group noted that compared to DECC the consultation period for such a significant document was too short. Ofgem noted that the consultation period will last longer than Ofgem's average of 6 week consultation period. In addition, Ofgem will actively engage stakeholders to ensure that it receives a wide range of views.
- 5.8. For further information on Project Discovery, contact Ben Woodside (ben.woodside@ofgem.gov.uk).

6. Agenda Item 5: Ofgem's discussion paper on demand-side response in the electricity sector (Sabreena Juneja, Ofgem)

- 6.1. Ofgem provided a presentation on the demand-side response in the electricity sector. The presentation slides are not available as the discussion paper has not been finalised.
- 6.2. Ofgem is currently developing a discussion paper on demand-side response. This project team was interested in the views of the DSWG, as it wanted to consolidate some of the information that had been obtained from the workshop it held on the 19th of January.
- 6.3. The paper is closely linked to Project Discovery, but more focus on the short term rather than the long term. In addition, Ofgem will be releasing a discussion paper rather than a consultation document. The aim of the discussion paper is to provoke debate rather than offer policy responses.
- 6.4. In relation to determining customer response Ofgem has been using its consumer surveying tools including Omnibus Survey and Consumer First panel of 100 consumers.
- 6.5. It was noted that these surveys suggest that changes in consumer's behaviour are unlikely, unless there was strong financial incentives. This signal could become stronger as smart metering is adopted. It was also noted that retail customers had more difficulty with the concept of peak/off-peak pricing in the energy sector.
- 6.6. Some DSWG members suggested that this might reflect the make-up as the panel being representative of the population rather than by the type of energy consumer they are. For example, many retail customers use Economy 7 tariffs which differentiate between peak and non-peak energy usage.
- 6.7. In relation to large energy users, Ofgem suggested that there was a lack of services being provided. DSWG members suggested that this is not as much of a barrier as weak price signals and incentives and inflexible production processes. Ofgem are happy to receive feedback on whether they have captured demand side response accurately. Contact Sabreena Juneja (sabreena.juneja@ofgem.gov.uk) or Tom (tom.handysides@ofgem.gov.uk).
- 6.8. **Action:** This agenda item will be discussed further at the next DSWG meeting.

7. Any other business

- 7.1. Suggested by DSWG members to create a formal way of involving the demand side so there is a predictable response rather than one that reacts to price as it currently does. MOD 90 and Mod 13a have gone through, although the interruptible sites have not been replaced with alternative.
- 7.2. Status of 'special sites' is a concern, as to whether the newly classified firm sites are treated fully as firm site or are most likely to be targeted first if interruption is needed.

8. Date of next meeting

8.1. Ofgem will consult internally to determine if the meeting can be aligned with other relevant meetings such as the LUG which is to be held 21st April. A suggested date for the next meeting is 11th May 2010.

8.2. **ACTION:** Confirm the date of the next LUG meeting.

8.3. **Response:** The next LUG meeting is scheduled for 21 April 2010 (3pm-5pm). DSWG could therefore be held on 21 April 1pm-2.45pm