

Demand Side Working Group Meeting

21st April 2010 (Ofgem, London)

Attendees

Antony Miller (Chair)	Ofgem
Krystle Thorpe	Ofgem
Socrates Mokkas	Ofgem
Jamie Black	Ofgem
Tom Corcut	Ofgem
Mathieu Pearson	Ofgem
Clare Cameron	Ofgem
Ed Reed	Cornwall Energy
Eddie Proffitt	MEUC
Jerry Hutton	British Sugar
Mark Duffield	NGrid
Chris Shanley	NGrid
Jeremy Nicholson	EEF
Andy Sugden	BOC
Jonathan Scott	Riotinto
Richard Hall	Consumer Focus
Esther Sutton	EON UK
Simon Russell	Corus Group
Simon Trivella	WW Utilities (<i>conference call</i>)
Jonathan Dennett	NGrid (<i>conference call</i>)
Mark Freeman	NGrid (<i>conference call</i>)
Steve Sherwood	Scotia Gas Networks (<i>conference call</i>)
Joanna Ferguson	Northern Gas Networks (<i>conference call</i>)

Apologies

Laura Cohen	Ceramfed
Richard Fairholme	EON UK
Mike Thorne	NGrid
Graham Hathaway	NGrid
Eddie Blackburn	NGrid
John Perkins	NGrid
Eddie Blackburn	NGrid
Steve Pownall	NGrid
Paul Auckland	NGrid
Chris Logue	NGrid
Steve Wilkin	Elexon
Andrew MacKenzie	Ineoschlo
Chris Webb	BOC
Mark Linke	Centrica
Stefan Leedham	EDF
Sebastian Eyre	EDF
Gareth Davies	CIA
Alison Meldrum	Corus
Lee Tadd	Cornwall Energy
Jonathan Scott	Rio Tinto
Jonathan Dennett	NGrid
Sabreena Juneja	Ofgem
Jonathan Dixon	Ofgem

Mark Cox

Ofgem

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 (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: Interruptible Contracts (Mathieu Pearson, Ofgem)

3.1. Ofgem provided a presentation on Ofgem Gas Distribution Interruptions policy (see [http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Ofgem%20interruptions%20policy%20\(2\).pdf](http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Ofgem%20interruptions%20policy%20(2).pdf))

3.2. Ofgem suggested that this past winter, with its unusually cold weather, including very cold spells and infrastructure going offline may not provide the most appropriate basis for considering the potential implications of the policy for interruptible contracts that will be in place from October 2010.

3.3. Some group members suggested that the winter was also unusual on the demand side, as industrial users demand was down due to economic conditions.

3.4. It was highlighted that there are ongoing concerns about the loss of interruptible arrangements.

3.5. Consumer Focus representative noted that large users should not have transport costs cross-subsidised by consumers. Other DSWG members noted that large users should not have to cross-subsidise security of supply (SoS) for domestic and non-daily metered consumers, particularly as there is no appropriate compensation for the costs of maintaining alternative fuel and equipment.

3.6. DSWG members proposed that more work could be done to better align Ofgem's policies on security of supply and interruptible contracts, and that DSWG was an appropriate forum for pushing such work ahead.

3.7. Concerns were expressed that in the event of system tightness, it will be large industrial users who are interrupted first, irrespective of what type of contracts they have signed and they will not necessarily receive any compensation for this.

3.7.1. It was stressed that this would only be on very rare occasions.

3.7.2. Representative from the Gas Distribution Networks (GDNs) noted that the obligation on them had not changed. They are investigating a range of options for ensuring gas flows are not interruptible.

3.8. Some DSWG members also noted that market-based solutions to interruptible arrangements were not likely to eventuate soon enough in the current regulatory environment.

- 3.9. Some members also raised concerns over who gets invited to tender for interruptible services offered by GDNs.

3.9.1. One member noted that they were not invited to tender for interruptible services on the grounds that they were not in an area where interruption was likely, but then their sites were interrupted last winter.

- 3.10. Another member noted that DSWG should be the forum to lead on some form of work on developing policy;

3.10.1. Ofgem suggested, as a possibility, the formation of a sub-working group to develop options for compensation.

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

ACTION: Tom Corcut will raise with Ian Marlee, GB Markets Partner, and Giles Stevens, Head of Competition Economics for appropriate Ofgem attendees for the next meeting to discussing setting up a sub-working group. Antony Miller will report back to group members.

Antony Miller will also notify group out of session.

4. Agenda Item 3: SO Incentives (Socrates Mokkas, Ofgem)

- 4.1. Ofgem provided an overview presentation on System Operator (SO) Incentives in the for year starting 1 April 2010/11 (see <http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/Presentation%20DSWG.pdf>).

- 4.2. Ofgem outlined the key SO incentive scheme for the past year. Ofgem stated the view that it expected the scheme to make National Grid more efficient than in previous years.

4.2.1. Group members noted that Ofgem and/or National Grid should provide more analysis of the direct benefits of SO incentives.

- 4.3. Ofgem made comment on the obligation to investigate the provision of linepack products to the market. There were mixed views on line pack product:

4.3.1. MEUG representative believes that there are good (SoS) reasons to not sell line pack and would object to any proposal to have a line pack product. Continued by suggesting that National Grid should be in total control of line pack.

4.3.2. Ofgem's view is that line pack may have been under utilised under current arrangements.

- 4.4. Ofgem noted that it (in conjunction with NGET) will be engaging a consultant to review the SO incentive scheme for electricity.

4.4.1. Group members noted that they were interested in this work and would like to be updated of the progress.

- 4.5. Group members expressed interest in whether the SO incentives would move to a multi-year scheme. Ofgem noted that it was considering a multi-year approach, but it expressed that it did not have a strong view about what the appropriate number of years should be at this point.

- 4.5.1. There was a suggestion to translate the environmental incentive (e.g. target, performance) into carbon equivalent units so that is more comprehensible for the industry.

5. Agenda Item 4: Other work updates

5.1. Review of Industry Code of Governance (Clare Cameron, Ofgem)

- 5.1.1. Ofgem provided a high level presentation on the Review of industry code governance (see http://www.ofgem.gov.uk/Markets/WhlMkts/CustandIndustry/DemSideWG/Documents1/CGR_pres.pdf).
- 5.1.2. There was general support for the work from DSWG members.
- 5.1.3. There was strong support for the principle that the interests of industrial and large commercial consumers should be represented on industry code panels, and not simply the interests of residential and small business consumers.
- 5.1.4. However Concerns were raised over the requirement to freeze all 'non-urgent' modifications that relate to a major mod (however, this policy is now set).
- 5.1.5. Allowing affected parties to propose changes to methodologies are welcomed by DSWG members that are now on the review panel.

5.2. Restructure of GB Markets (Ofgem)

- 5.2.1. Antony Miller updated DSWG members about the restructure of the Markets division of Ofgem.
- 5.2.2. The markets division now comprises of: Market Processes; Retail; Wholesale Competitive; Wholesale Regulated; Research and Economics; Europe; and Legal. To be aware, some Ofgem-DSWG correspondents may have changed positions.
 - 5.2.2.1. Ian Marlee - Partner, GB Markets ;
Emma Kelso - Associate Partner Retail & Market Processes;
Kersti Berge - Associate Partner Research and Economics

6. Any other business

- 6.1. Ofgem's publication of the discussion paper on demand-side response in the electricity sector has been postponed until after the election.
 - 6.1.1. 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 2010.
 - 6.1.2. In February's DSWG meeting, Ofgem provided a presentation on the demand-side response in the electricity sector, of which DSWG members were keen to further discuss. The presentation slides are not available as the discussion paper has not been finalised.
 - 6.1.3. For questions relating to Ofgem's demand side response, contact Sabreena Juneja (sabreena.juneja@ofgem.gov.uk).

6.1.4. This item will be discussed further at the next DSWG meeting.

6.2. Liquidity Report

6.2.1. There was general support for this work.

6.2.2. Some members felt a little disappointed that the difficulties faced by large users which are similar to those face by independent suppliers were not discussed or noted more explicitly in the recent consultation paper.

6.3. An industry participant made the comment that they would like to have a view on the capital invested (under price controls) and the actual costs/benefits of the investment.

6.4. ACTION: Antony Miller will report back to the group regarding whether Ofgem are doing any following up on barriers to entry.

7. Date of next meeting

7.1. The next DSWG meeting is scheduled for Tues 7th September 2010 (TBC: 10am-12pm).

7.1.1. Main issue will be demand side response work by Ofgem and others.