

Demand Side Working Group Meeting

9th December 2010 (Ofgem, London)

Attendees

Antony Miller (Chair)	Ofgem
Mehadi Mansur	Ofgem
Pete Sherry	Ofgem
Min Zhu	Ofgem
Nigel Nash	Ofgem
Iain Morgan	Ofgem
Alison Meldrum	Corus
Chris Webb	BOC
Claire Gibney	OGC
Gary Keane	Poyry
Gareth Davis	CIA
Ed Reed	Cornwall Energy
Eddie Proffitt	MEUC
Esther Sutton	Eon UK
Jeremy Nicholson	EEF
Paul Mott	DECC
Steve Wilkin	Elxon
Marc Borrett	Reactive Technologies Limited

Apologies

Jonathon Scott	Rio Tinto
Richard Hall	Consumer Focus
Juliana Urdal	National Grid
Paul Aukland	National Grid
Alastair Martin	Flexiticity Limited
Juliet Corbett	Uregni

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

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=174&refer=Markets/WhlMkt/s/CustandIndustry/DemSideWG>

1. Introductions (Antony Miller, Ofgem)

- 1.1. Antony Miller welcomed the attendees. The main aim for this meeting is to consider how best to use the resources of the group in the context of the many important projects that will be occurring in the coming year.

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

- 2.1. Previous minutes has been approved by the delegates.
- 2.2. **ACTION:** A delegate requested that his name be corrected in the previous minutes (completed on 10th December).

3. Agenda Item 2: Timings for the meeting next year (Antony Miller, Ofgem)

- 3.1. Provisional dates were suggested some dates for the DSWG meeting in the coming year which were-

1 st Meeting	9 th March
2 nd Meeting	9 th June
3 rd Meeting	8 th September
4 th Meeting	8 th December

- 3.2. It was noted that these dates were intended to avoid school Holidays any other potential conflicts. However, it would be difficult to align dates with LUG as there are other meetings industry stakeholder meetings being proposed for those dates.
- 3.3. It was noted that the proposed date in March would conflict with next IET smart metering conference. **ACTION:** Ofgem to propose another date for the March meeting.
- 3.3.1. It is now proposed that the next DSWG meeting be held on 2 March 2011.
- 3.4. There was also general agreement within the group that there be some variety in the day of the week that the meetings are held on, with Tuesdays through Thursdays preferred. It was also agreed that mornings were fine with the group as long as the start time allowed for travel. It was also proposed that one of the meetings could be held outside of London at by one of the Group members.
- 3.5. Going forward, it was generally agreed that meetings could better meet the objectives of the DSWG terms of reference as well as the needs of members if they were focussed on one or two key issues, with only other brief updates, or information being circulated out of session. It was noted that members should take an active role in proposing relevant topics for discussion.
- 3.6. It was agreed that the focus of the next meetings would be the significant code review on gas security of supply.
- 3.7. While the June meeting would focus on aspects of the RIIO price controls and TransmiT projects which are relevant for DSR.

4. Agenda Item 3: DSR workshop summary (Antony Miller, OFGEM)

- 4.1. On 29 November 2010, Ofgem hosted a workshop to gauge stakeholder views on our Demand Side Response Discussion Paper (<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=39&refer=Sustainability>). This workshop was conducted on an invitation basis. Ofgem invited a range of industry stakeholders including representatives from EIUG and TATA Steel.

4.2. Issues raised at the workshop included:

- 4.2.1. Customer concerns over the limited range of DSR products available in the market.
- 4.2.2. Supplier concerns regarding potential imbalance charges if DSR is not firm
- 4.2.3. Concerns regarding the impact of sharpening price signals on final users prices.
- 4.2.4. Lack of understanding of benefits of DSR in the SME sector
- 4.2.5. Uncertainty regarding Government policy and its impacts on DSR.
- 4.3. Some group members had specific concerns regarding how instantaneous DSR might be accessible in reality. For example DSO may need DSR to manage transformer overload issues in areas where there are high degrees of electrification. Other members questioned whether there would be sufficient responses to national half-hourly price signals. Delegates were invited to send any further comments/concerns directly to Sabreena Juneja (sabreena.juneja@ofgem.gov.uk)
- 4.4. In relation to the organisation of the event, some DSWG members noted that they would have liked to have been invited to the workshop or been informed that it was being held. However, it was also noted that energy-intensive users group and some large users such as TATA Steel – were represented at the meeting.

Action- A summary of DSR workshop will be provided to the group as soon as it is finalised (minutes from the meeting are available at <http://www.ofgem.gov.uk/Sustainability/Pages/Sustain.aspx>)

5. Agenda Item 4: Significant Code Review – Gas Security of Supply(Peter Sherry, Ofgem)

- 5.1. **Peter Sherry presented on Ofgem's Gas Security of Supply - Significant Code Review(SCR)**(see: <http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/Gas%20Security%20of%20Supply%20SCR.pdf>)
- 5.2. The SCR process has been designed in order to implement a faster and more holistic approach to reviewing significant matters, where Ofgem leads the policy development and can then direct NGG to raise the relevant code modifications. The SCR process is expected to run for between 6-18 months, and will involve extensive consultation with industry and other interested parties.
- 5.3. Ofgem initially sought stakeholder views on three specific areas where an SCR could be launched during 2011. The areas were
 - 1) Gas emergency arrangements
 - 2) Electricity cash-out
 - 3) Smart metering settlement processes.

- 5.4. Following this consultation Ofgem has decided to focus on an SCR dealing with gas security of supply and, in particular, it will look at gas emergency cash-out arrangements. Project Discovery identified that "frozen" cash-out prices may not attract gas into GB during an emergency and may lead to inadequate long term contracting and investment. Therefore Ofgem is keen on dynamic emergency cash-out pricing as a driver of peakier wholesale pricing, which it felt would help enhance the incentives to utilise demand-side responses for suppliers and their customers. The gas GSC will investigate the case for introducing dynamic cash-out prices, the role of National Grid and the Network Emergency Coordinator during an emergency and compensation at the value of lost load (VoLL) for disconnected firm customers.
- 5.5. Initial options for the gas SCR include introducing dynamic cash-out pricing during a Stage 2 emergency with compensation at value of lost load (VoLL) for disconnected customers. Delegates noted that the value of lost load is very difficult to calculate as it depends on numerous factors (including contractual arrangements) and could vary greatly across customers. Delegates raised concerns about how to do this, and whether it was feasible. Ofgem noted that there are various options that could be considered for VoLL (e.g. setting VoLL so high that a loss of gas supplies would be unthinkable, and/or different VoLLs for different customer classes) and other policy measures (such as supplier obligations) could also be considered. Ofgem also stated that, leaving the VoLL issue aside, there was a measure of broad support for the general initiative.
- 5.6. Delegates had some concerns about how the resulting higher prices (risk premium) resulting from uncapped cash-out arrangements would be passed through to customers/end users.
- 5.7. DECC supports Ofgem's SCR project and is proposing new legislation in its December Energy Bill to allow Ofgem to implement required code changes in time for winter 2011-12.
- 5.8. Ofgem noted that it intended to publish an initial consultation paper in January 2011 and hold a seminar on 18th January 2011. DSWG members commented that it would be useful if the workshop provided information regarding the relation between the SCR options with the broader European security of supply legislation; and the relationship between Ofgem's views on gas and electricity SoS arrangements.
- 5.9. **ACTION:** Ensure DSWG members are invited to the seminar (Action completed 21 December 2010).
- 5.10. In addition Ofgem informed the group that the proposals for a SCR of electricity cash-out arrangements will be aligned with DECC's electricity market reform proposals and timelines. In all likelihood the electricity cash-out SCR will commence after the publication of the Electricity Market Reform White Paper, due in the spring of 2011.
- 5.11. As noted, the Gas Security of Supply SCR will be the focus of the next DSWG meeting.

6. Agenda Item 5: Project TransmiT (Min Zhu, OFGEM)

- 6.1. The presentation provided an overview of OFGEM's Project TransmiT. (See: <http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/Project%20TransmiT.pdf>)

- 6.2. TransmiT is an independent and open review of transmission charging and associated connection arrangements. The main objective of the project is to ensure transmission charging is fit for purpose - facilitates timely transition to low carbon energy sector while continuing to provide safe, secure, high quality network services at value for money to existing and future consumers.
- 6.3. The review will cover both the electricity and gas transmission arrangements, but the initial focus will be on electricity transmission charging arrangements and the way charging needs to accommodate cross-European and other market and regulatory developments. Electricity transmission will also focus on connection issues that fall outside the scope of the Government's Connect & Manage decision and other Ofgem lead projects such as RIIO and SO incentives.
- 6.4. One group member noted that issues associated with (or proposed reform of) Triad Demand and associated charging arrangements is likely to be an area that DSWG members would want to discuss at greater length. Group members also noted that it was difficult to keep track of the various work streams currently in train, but agreed that using forums such as the DSWG to target relevant issues for energy users was helpful.
- 6.5. Publication of some independent academic reports that Ofgem has commissioned for Project TransmiT is due in March 2011, this will be important and will provide a strong lead into a consultation on options the next month. Delegates suggested arranging a detailed discussion of Project Transmit for the June meeting.
- 6.6. Group members were encouraged to engage in the online web forum (<http://www.ofgem.gov.uk/Networks/Trans/PT/WF/Pages/WebForum.aspx>). Delegates were also invited to provide Ofgem with any other comments that they had on the Transmit project.

7. Agenda item 6: Treatment of Unallocated Gas (Nigel Nash, OFGEM)

- 7.1. OFGEM provided an update modifications on Uniform Network Code in relation to the treatment of unallocated gas. Currently all unallocated gas is attributed to 'small supply points'. The aim of these modifications are to ensure a fairer allocation of the costs associated with unallocated gas.
- 7.2. UNC Mod 317 allocates £2.75m a year of unallocated gas costs to the large supply point from April next year. In 2008, around 1.1% of total gas throughput was treated as 'unallocated' through the Reconciliation by Difference process.
- 7.3. UNC 229 (Mechanism for correct apportionment of unidentified gas) introduces a mechanism for apportioning Unidentified Gas between the SSP and LSP sectors. This modification proposal introduced a table to the UNC which would apportion a fixed volume of Unidentified Gas to the NDM LSP and DM LSP sectors calculated by an independent expert (Allocation of Unidentified Gas Expert, or AUGÉ) to apportion values within this table on an enduring basis.
- 7.4. Currently, Xoserve is procuring the AUGÉ service. We anticipate that the new arrangements will take effect from April 2012
- 7.5. Ofgem as noted that that the introduction of smart and AMR meters will increase the accuracy of settlement but there will always be a element of unallocated gas to be apportioned across market sectors as a result of leakage, measurement inaccuracy and theft.

8. Agenda item 7: RIIO a new approach to regulation (Iain Morgan, OFGEM)

- 8.1. Iain Morgan provided an overview of the new RIIO price control process (See: [http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/Policy%20Development%20\(RIIO\).pdf](http://www.ofgem.gov.uk/Markets/WhIMkts/CustandIndustry/DemSideWG/Documents1/Policy%20Development%20(RIIO).pdf))
- 8.2. Ofgem's Project Discovery identified £200 billion that needs to be found in the next ten years to secure sustainable energy supplies and keep cost as low as possible for the consumers. While the Government is addressing the problem of attracting enough investment to build new forms of generation through its Electricity Market Reforms, there still remains £32 billion of network investment which falls within OFGEM's remit.
- 8.3. OFGEM's new performance based RIIO model seeks to ensure consumers get the necessary investment in Britain's energy networks at a fair price. RIIO will ensure that network cost do not rise any more than they need to by financially pushing the inefficient companies that fail to deliver to consumers. Companies will also have to meet performance targets, set in consultation with consumers and network users: failure to do so brings automatic penalties.
- 8.4. In this model, outputs will be measured and potentially incentivised. Additionally it will include safety, reliability, connections terms, customer satisfaction, environmental aspects and social obligations. The desired outcome of this project is to play a full roll in the delivery of a sustainable energy sector and to deliver long term value for money network services for existing and future customers.
- 8.5. It was noted that new aspects of the RIIO framework was to consider customer satisfaction in quality of service and stakeholder engagement as a key aspect of the price control.
- 8.6. Members at the meeting noted that there could be issues of overlap and potential inconsistencies with Government policy given the timing for RIIO and the EMR process. Ofgem noted that part of having a longer price control period (8 years rather than 5) was that there could also be a mid period review (after 4 years)
- 8.7. Ofgem informed DSWG members that our consultation document on the outputs that we propose to hold GDNs to delivering in the price control was imminent. Ofgem noted that summary should provide a clear indication of the directions Ofgem is taking for the price controls .(see: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIOT1%20overview.pdf&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes> and <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIOGD1%20overview.pdf&refer=Networks/GasDistr/RIIO-GD1/ConRes>).
- 8.8. Ofgem intends to publish its decision document in March. This will then be followed by the GDN and TSOs developing and consulting on their business plans, it was agreed that it would be useful to discuss the relevant aspects of the required outputs for DSR and how GDNs and TSOs are developing their business plans at the June DSWG meeting.

9. Other business

Providing more information about Ofgem stakeholder engagement

- 9.1. DSWG members commented on the scope for Ofgem to provide better information regarding the various consultations, seminars and workshops we were currently conducting. Members accepted that Ofgem could conduct such workshops and seminars on an invitation only basis, but it would be helpful if there was a single portal which allowed stakeholders to see what meetings were being held by Ofgem.
- 9.2. More information regarding meetings would allow members to better understand how and when they can engage Ofgem on different issues.
- 9.3. **ACTION:** It was agreed that this issue would be raised internally, and feedback would be provided to the Group.
- 9.3.1. **Response:** Ofgem does have a calendar on its website (<http://www.ofgem.gov.uk/About%20us/Calendar/Pages/OfgemCalendar.aspx?event=event>). Currently, this calendar only has information regarding upcoming Authority meetings. This issue has been brought to the attention of the communication team. Any developments will be reported to the group.

Implications of European energy market developments

- 9.4. Members noted that there are a number of changes taking place at the European level that are likely to have implications for energy users in the GB market.
- 9.5. It was noted that Ofgem's European Team recently held a workshop to discuss a number of energy market related issues. It was noted by some members that the session covered a range of issues and it would be helpful to have some form of follow-up meeting which focused on the implications of the legislative reforms on end-users.
- 9.5.1. **Action:** Ofgem agreed to bring matter to the attention of the European Team in order to consider a separate, more targeted meeting for DSWG members. Ofgem requested that DSWG members consider issues that would be of particular interest.

10. Date of next meeting

- 10.1. Ofgem is proposing to conduct the next DSWG meeting on Wednesday 2 March 2011.
- 10.2. The focus of the next meeting will be on the gas Security of Supply SCR project.