

## Demand side working Minutes– 16 February 2011

Annotated Agenda for the Demand Side Working Group	From	Ofgem	16 February 2011
	People invited	Demand Side Working Group	
	Date and time of Meeting	03:30pm-05.00pm, 16 February 2011	
	Location	Room 9, Ofgem	

### Attendees

Antony Miller (Chair)	Ofgem
Mehadi Mansur	Ofgem
Jamie Black	Ofgem
Anna Barker	Ofgem
Alison Meldrum	Corus
Chris Webb	BOC
Claire Gibney	Cabinet Office
Gareth Davis	CIA
Jeremy Nicholson	EEF
Jonathan Scott	Rio Tinto
Richard Hall	Consumer Focus
Sebastian Eyre	EDF
Simon Trivella	Wwutilities
Alan Raper	National Grid
Richard Street	Corona Energy
Chris Shanley	National Grid

### 1. Introductions (Antony Miller, Ofgem)

- 1.1. Antony Miller welcomed the attendees. The aim for this meeting is to discuss Ofgem's Gas SCR project. The meeting was moved forward from 2 March 2011 to allow members to engage with Ofgem prior to the due date for submissions to the initial consultation for the Gas SCR (on 22nd February).

### 2. Agenda Item 1: Gas SCR Discussions (Anna Barker & Jamie Black, Ofgem)

- 2.1 Anna Barker and Jamie Black presented on Ofgem's Gas security of supply Significant Code Review (see: <http://www.ofgem.gov.uk/MARKETS/WHLMKTS/CUSTANDINDUSTRY/DEMSIDWGW/Docuements1/DSWG%20Gas%20SCR%20slides.pdf>).

- 2.2 Ofgem released its initial consultation for the Gas SCR on 11 January 2011. This review will focus on the arrangements which are in place in the event of a gas deficit emergency (GDE) and will consider revisions to the Uniform Network Code (UNC). The paper is available on the Ofgem website.

- 2.3 Since releasing the initial consultation, Ofgem has held a number of stakeholder events. Eddie Proffitt and Alison Meldrum attended all of the workshops as representatives of the DSWG. In addition, a closing seminar was held on Wednesday. Stakeholder views during the stakeholder events (two public seminars and three focussed workshops) were discussed along with Ofgem's early reaction to the stakeholder's views. A time table for the Gas SCR going forward was also presented.

- 2.4 Some members wanted to know about the rationale behind Ofgem conducting this project. Ofgem mentioned that the aim for this project is to minimise the risk of a gas

deficit emergency occurring, the length and severity of an emergency if one were ever to occur and to compensate the customers appropriately if an emergency did occur.

2.5 Members noted about the ability of GB to attract gas into during an emergency regardless of the price. This was in relation to network constraint and the differences between GB and European gas markets. Ofgem noted that the Gas SCR is focussed on gas deficit emergencies. In relation to differences between GB and Europe, it was noted that this was one of the reasons for undertaking the Gas SCR.

2.6 Some of the members also raised concerns regarding whether the compensation will actually result in higher levels of security of supply. Representatives from Ofgem noted that a liability for compensation would mean that market participants would take out insurance against the liability. The insurance could include investment in storage and long term contracts e.g. to reduce the likelihood to the liability eventuating (which would improve security of supply). However, it was also recognised that market participants might also invest in financial insurance which might not improve security of supply.

2.7 Participants suggested that the outcome of the SCR might be a zero sum game as consumers would have to pay in advance for any potential compensation they may receive. Ofgem noted that by putting in place compensation arrangements that incentivised shippers to find the cheapest way of managing this risk there could be a net gain where security of supply benefits, the costs of delivering more secure supplies, and the potential costs to consumers of losing their gas supply are considered together. It was noted that there may be allocative as well as overall efficiency benefits associated with shifting the risk to those more able to manage it.

2.8 Some delegates noted that the companies might not insure against this liability at least cost if it is just passed onto consumers. Ofgem mentioned that the gas market is competitive and if prices rose for one participant due to inefficient investment against their compensation liability, this would result in that company losing market share. Hence, there is an incentive on market participants to invest efficiently.

2.9 Members raised concerns that the consumers may not want to pay more on their gas bills if this is just viewed as paying for compensation that they would never receive. Ofgem mentioned that the increase in consumer bills should neglect increased security of supply to some extent. To the extent that security of supply does improve, this would likely have an associated cost which would be passed onto consumers.

2.10 The practicalities of having a pre-emergency alert stage were discussed. It was pointed out that customers would only participate in this as a last resort and hence, it could not be completely determined ahead of time. The feasibility of this was also questioned given that customers do not own their day-ahead gas until the day and hence, might not be able to sell something that they do not own.

2.11 There was some discussion on whether demand side management in circumstances close to an emergency would be best communicated by shippers or transporters. No clear consensus as to who was best placed to manage this role is currently available.

### **3. Agenda Item 2: Confirmation of the previous meeting minutes (Antony Miller + All)**

3.1. Previous minutes has been approved by all the delegates. AM recognised that the previous meeting minutes publication/circulation was delayed due to some unforeseeable circumstances.

#### **4. Agenda Item 3: Issues that we could cover off-line (Mehadi Mansur, email update)**

- 4.1. Ofgem provided a brief update on key projects and agreed to provide updates on other work relevant Mod's offline.

##### ***a)Project updates: RIIO, TransmiT, SO incentives***

##### **SO incentives:**

- i. **ACTION:** AM to provide an update on SO incentives (completed, please see below).
- ii. The development of a multiyear System Operator incentive scheme to apply from April 2011 is continuing. Based on Ofgem's own analysis of the Initial Proposals, the concerns of respondents and the views of the independent consultant engaged to assist us, Ofgem is developing the Final Proposals. Ofgem expect that the Final Proposals will be released in March 2011 for further consultation.

##### **TransmiT:**

- i. It was noted that the majority of responses to the call for evidence focused on electricity transmission and that this would be the focus of TransmiT going forward.
- ii. The three academic teams will submit their draft reports to Ofgem shortly. These will be discussed at a roundtable event on 4 March 2011. After that, the reports will be finalised and published by Ofgem (planned for early April).
- iii. Participation at the round table was based on delegates requesting to attend i.e. it was an open invite, however the attendees have now been determined The TransmiT team is open to receiving views from DSWG members that can't attend but have specific concerns to address. The contact details for the TransmiT are available on Ofgem's website.

##### **RIIO:**

- i. Ofgem published the RIIO-T1 and RIIO-GD1, strategy consultation documents in December. This consulted on a range of things including proposed outputs, business plan guidance, and approach to cost assessment, uncertainty mechanisms and financial issues, as mentioned during our last meeting.
- ii. Responses were received on 4 February and Ofgem is reviewing the responses. The strategy decision document will be published towards the end of March. This will provide the information necessary for the TOs to prepare their business plans. At this stage it will be important for stakeholders to engage with them in terms of what they want to see delivered from 2013 – 2021.

##### ***b)DSR workshop follow up.***

- i. AM noted that there is some work going on DSR electricity side. Ofgem has organised some meetings with industry stakeholders to better understand barriers to increasing DSR in GB. Ofgem is also considering how DSR issues fit into the various work streams currently being undertaken by Ofgem. AM will keep the members updated on any developments in this area.

##### **c)Relevant Mods**

- 1) It was noted that UNCs' that may be of interest to the group included
  - i) UNC 367.

- ii) UNC 358
- iii) UNC 345
- iv) UNC 337
- v) UNC 333

2) In addition, members noted that UNC 329 is of interest.

2. i. It was agreed that Ofgem would provide a short summary on the progress of these mod's out of session. All these updates can be found in the appendix on page 5.

## **5. Agenda Item 4: Special DSWG meeting on European Issues (Antony Miller, Ofgem)**

- 5.1. During the last meeting, members mentioned 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. Ofgem has been contacting with members to find out specific issues that would interest DSWG stakeholders.
- 5.2. Some members asked to set up an industrial users meeting involving both Ofgem and DECC. It was noted that there are challenges in setting up such meetings. However, it was agreed that Ofgem could try to organise such a meeting if the members provided Ofgem with the specific topics that they would like to discuss and the organisations that they would like to be involved.
- 5.3. AM asked the members whether they would like to have an ad hoc meeting on April in which general European issues could be discussed. Members were asked to provide their views on the topics that they would like to cover in the European discussion.
- 5.4. One member noted about transposition issues and policy developments which are circulating around interpreting directives and how that interruption will affect framework guidance of the network code.

**Action:** AM mentioned that an ad hoc meeting concerning general EU issues can be organised in April once the members specify the topics that they want to discuss. AM to have a further discussion with the European team once the members have identified the topics.

## **6. Any other business**

- 6.1. Ofgem noted that the Electricity Market Reform (EMR) will be an important issue for DSWG members. Currently Ofgem is engaged with DECC on this work and we have formally responded to the consultation on the Carbon price floor: support and certainty for low-carbon investment. Ofgem is considering its responses on the main consultation.
- 6.2. Going forward, it was proposed that EMR could be the topic for September meeting or depending on timing Ofgem could hold an ad hoc DSWG meeting. This will be considered at the June DSWG meeting.
- 6.3. A delegate also asked whether Ofgem is publishing their responses on EMR consultation document.

**Response** Ofgem's view is that the decision to publish remains with DECC. However we may be able to discuss Ofgem's views at the relevant DSWG meeting.

## **7. Date of next meeting**

7.1. 9<sup>th</sup> June, issues to be discussed are RIIO and TransmiT.

**Appendix :Update on Modifications**

**Mod No. 337:** Introduction of an Inter-day Linepack Product.

**Summary of the issue:** The aim is to introduce a linepack product, with the view that a value of linepack will facilitate correct balancing signals and therefore more efficient operations. It will also present shippers with an additional balancing tool.

**Process:** The mod was last discussion at a Transmission Work stream meeting on 11 Feb. Based on recent discussions; NGG is aiming to present this to the Panel in March.

**Ofgem view:** We will determine our view once the mod has gone through the appropriate process.

**Ofgem contact:** Ian McNicol (ext # 1817).

**Mod No. 333:** Update of the default Marginal Buy Price and System Marginal Sell Price.

**Summary of the issue:** The aim is to update the default SMP's as they have not been updated since 2001. The aim is to update this value to facilitate correct balancing signals and therefore more efficient operations.

**Process:** The mod was sent for consultation by the January panel, with EDF raising an alternate with a different charging methodology. Consultation closed on 11 February.

**Ofgem view:** We will determine our view once the mod has gone through the appropriate process.

**Ofgem contact:** Ian McNicol (ext # 1817).

**Mod No. 345:** Removal of daily metered voluntary (DMV) regime.

**Summary of the issue:** A new regime called Daily metered elective (DME) has been set up and it's imagined that all DMVs will transfer across to DMEs. This mod proposes the phasing out of DMV. One major difference being that under DME, shippers have to provide metering equipment, under DMV it's provided by the GT.

**Process:** The final modification report is with Ofgem but we are still awaiting legal text

**Ofgem view:** If shippers can procure meters competitively then there's no need for GTs to be providing them. We have qualified support for this Mod as long as it can be proven that shippers will not be forced to move across to DME within insufficient timescales.

**Ofgem contact:** Tabish Khan (ext # 7901).

**Mod number/name No. 367–** Interruptible to Firm – Supply Point Transition.

**Summary of the issue –** The Proposal sets out a series of Supply Point Administration (SPA) steps that users will be required to carry out to ensure all Interruptible Supply Points are recorded on the Supply point register as 'Firm' with effect from 1<sup>st</sup> October 2011. The Proposal also permits transporters to take certain actions where those steps are not carried out by the User.

**Process –** On 17 February 2011, the Modification Panel considered the UNC 367 and determined that the modification should be treated as a Self-Governance Modification Proposal.

**Ofgem view –** We will determine our view once the mod has gone through the appropriate process.

**Ofgem contact –** Mathieu Pearson (ext # 7294).

**Mod number/name: No. 358–** I&C Compensation for Emergency Interruption.

**Summary of the issue–** This modification proposes to make changes to the I&C compensation for sites that have their supply interrupted in an emergency. The proposal is GDNs pay customers compensation equivalent to a year's capacity charges for each day of interruption to gas supply.

**Process–** Mod at proposal stage review group not established yet.

**Ofgem view–** Ofgem recognises that the two types of interruptions lead to customers being without a gas supply. On this basis, it could be argued that the Mod 358 is related to Gas SCR. However, Ofgem donot think that the circumstances of interruption are the same and we consider that UNC358 is covering sufficiently different issue. In Ofgem's view it is appropriate that UNC 358 is not suspended and proceeds through the UNC modification Procedures.

**Ofgem contact-** Mathieu Pearson (ext # 7294).

**Mod number/name: No. 329:** Review of Industry Charging and Contractual

Arrangements- DM Supply Point Offtake Rates (shqs) and DM Supply Point Capacity (soqs)

**Summary of the issue** – This review proposal considers the UNC arrangements for the provision of Supply Point Capacity and Supply Point Offtake Rates by Shipper Users to DNs for all DM supply points. There were certain concerns relating to the current incentives placed upon Shipper Users to provide SHQ to the Transporters which are representative of their usage. Furthermore the Gas Distribution Network Operators (GDNs) are instigating a Review Process to consider if changes should be made to incentivise customers to consider their SPOR usage levels. Currently, customer capacity charges were broadly independent of their contracted SPOR even where the contracted SPOR may require GDNS to incur additional cost in meeting these requirements.

**Process** – Delegates have identified 3 options to adjust charges relating to ratio between SHQ to SOQ whilst retaining the SOQ charging regime, during the next meeting and they are

- Consideration of decreasing DM SHQ/SO2 & removal of bottom-stop restrictions
- Consideration of draft UNC modification proposals
- Preparation of draft work group report

Options will be considered at the 11 April meeting

**Ofgem view** – We will determine our view once the mod has gone through the appropriate process.

**Ofgem contact** – Steve Brown (ext # 7105)