

## Demand Side Working Group Minutes – 23<sup>rd</sup> September 2011

Annotated Agenda for the Demand Side Working Group.	From	Ofgem	23 September 2011
	People Invited	Demand Side Working Group	
	Date and time of Meeting	10.30am-12.30pm 23 <sup>rd</sup> September 2011	
	Location	Room 9, Ofgem	

### Attendees

Malcolm Arthur	National Grid
Marc Borrett	Reactive Technologies
Dave Brogden	SSE
Gareth Davies	CIA
Mark Duffield	National Grid
Claire Gibney	Cabinet Office
Ben Hook	CBI
John Lucas	Elxon
Alastair Manson	Engage Consulting
Arthur Probert	Energy Services Partnership (by phone)
Eddie Proffitt	MEUC
Ed Reed	Cornwall Energy
Charles Ruffell	RWE npower
Richard Street	Corona energy
Esther Sutton	E.On (by phone)
Richard Westoby	SSE
Mike Wilks	Poyry
Yoav Zingher	Kiwi Powered
Jamie Black	Ofgem
Emma Burns	Ofgem
Simon Dennell	Ofgem
Tom Handysides	Ofgem
Ian McNicol	Ofgem
Peter Sherry	Ofgem
Phil Slarks	Ofgem
Ben Smithers	Ofgem
Giles Stevens	Ofgem

### 1. Introductions

- 1.1. Phil Slarks welcomed the attendees.

### 2. Agenda Item 1: Review of the minutes of the last meeting

- 2.1. The minutes of the previous meeting were approved.

### **3. Agenda Item 2: Discussion on future of the DSWG (Phil Slarks, Ofgem)**

3.1. Phil Slarks started by saying that this was an initial discussion designed to capture high level thoughts about the role of the group. It will feed into more structured thinking by Ofgem about the role the group should play. Ofgem may come back to the group at a later date with more developed thoughts.

3.2. Delegates mentioned the potential cross over between groups, eg LUG and Winter Outlook, as well as other non-Ofgem meetings. However, this was not necessarily seen as something to be avoided, as the DSWG is the only group that brings together this particular range of organisations.

3.3. Members raised the idea of splitting the group into separate meetings for electricity and gas. It was noted that they provide different challenges and certain members specialise in one side or the other. However, other attendees commented that electricity and gas issues were often interrelated. An alternative suggestion was that the agenda of each meeting could be split (eg half on electricity and half on gas) or the DSWG could alternate its focus from meeting to meeting. It was noted that, over the years, the focus of the group had varied in line with wider market/policy developments.

3.4. One member questioned whether the meeting is actually a working group or whether it is actually a forum, aimed at information sharing. It was also noted that the focus should be on regulatory issues in relation to DSR and should not stray too far into abstract policy discussions.

3.5. On the point of membership: most members agreed that the range of parties represented in the group was useful. In the future it was mentioned that the group could widen its scope to allow for the full potential of upcoming issues to be addressed – although this would also require a widening of the membership. It was also suggested that a member of the Ofgem networks team should attend the meeting, and Phil Slarks committed to look at this for future meetings.

### **4. Agenda Item 3: EMR and demand side participation (Pete Sherry, Ofgem)**

4.1. Pete Sherry gave a presentation on [Demand Side Response and the Government's Electricity Market Reforms \(PDF – link opens in a new browser window\)](#).

4.2. It was noted that, while this is a Government-led project, Ofgem, has been consulted and provided advice. Ofgem also has some closely related projects, including Liquidity, electricity cash-Out and TransmiT, and may have a role in the future implementation, delivering and regulating arrangements arising from the EMR. It was noted that the Government have made clear their wish to utilise DSR through the EMR proposals.

4.3. The first discussion point was whether the current technical requirements for STOR pose a barrier to participation by DSR. Members commented that the group has previously looked at STOR, and Ofgem committed to review that discussion. Some members stated that the current STOR system was designed for large generation, and DSR is forced to fit into that template. Mark Duffield (National Grid) agreed that improvements could be made to STOR arrangements and National Grid is actively looking at this issue.

4.4. The group discussed prices offered for DSR. It was suggested that the price of DSR could be significantly lower than prices currently charged by generation (e.g. paying to turn down wind generation). It was also noted that prices for DSR had fallen, possibly due to new DSR coming onto the system, and that this could potentially deter serious engagement with DSR in the future.

4.5. Attendees asked what the uptake of DSR has been to date. Some members suggested it had been low, suggesting that larger companies know it exists but don't engage, while a lot of smaller companies do not know these opportunities exist at all. Members noted that the size of company could be a key barrier to participation. However it was concluded this could not be the only issue as many large firms do not engage in DSR.

4.6. The discussion then moved on to the two capacity mechanism options currently under consultation. The first, a target mechanism, now known as a Strategic Reserve and the second, a market wide mechanism, now known as a Capacity Market.

4.7. The group discussed the contracts that could be agreed for the provision of capacity. It was agreed that shorter contracts would be more suitable for smaller DSR participants: small businesses could not make guarantees 20 years – or even 4 years - into the future, as they may not exist over that time horizon.

4.8. The group agreed that to support participation by small business DSR participants, capacity mechanism rules had to be simple. However, it also acknowledged the role of aggregators in explaining the rules and facilitating access of small businesses to DSR.

4.9. The group asked whether it would be Ofgem's role to forecast the level of capacity required, and noted the difficulty of doing so. Pete Sherry said that this issue was still under consideration.

4.10. Responses to the Government's capacity mechanism consultation are due by 4<sup>th</sup> Oct 2011.

## **5. Agenda Item 4: National Grid: Review of System Alerts and Firm Monitor (Malcolm Arthur, National Grid)**

5.1. Malcolm Arthur presented on [National Grid's Gas Balancing Alerts and Firm monitor \(PDF – link opens in a new browser window\)](#).

5.2. National Grid has a UNC obligation to alert system users to a supply/demand imbalance via a Gas Balancing Alert (GBA). There are two triggers for alerts: day ahead and on-the-day. There is an expectation that the market will respond by increasing supply or initiating a demand side reduction.

5.3. Members commentated that GBAs were generally used by traders rather than consumers. When an alert is issued the market reacts by price rises that resulted in more gas supplies.

5.4. The group discussed how GBAs should be changed, including the following issues:

- **Name** – does the term "alert" cause more concern/provoke more media interest than necessary? In general this was not seen as an important issue by the group, although other stakeholders have raised it with National Grid.
- **Degree of information** – it was noted that GBAs could include more information about the extent of the imbalance, especially as this information is already publically available elsewhere.
- **Ability to recall GBAs** – once a GBA is issued it remains in place until the end of the day, even if the risk of imbalance recedes. National Grid could instead have the power to recall an alert.

5.5. The general view of the group was that GBAs are a useful tool and National Grid should continue to publish them.

5.6. National Grid plan to have finalised proposals for changes to GBAs in place before the end of this year, with the intention of putting changes in place by winter 2012.

5.7. Malcolm Arthur gave a brief overview of the Firm Monitor, and highlighted slides on Safety Monitor and European dimensions that the group could refer to outside the meeting.

## **6. Agenda Item 5: Industry papers- Smart Demand Response (ENA/ERA Joint Working Group) and “Protecting the UK’s Foundations” (CBI)**

6.1. Alistair Manson gave a brief update on ENA/ERA progress with Smart Demand Response. The group published a document was published last year and a further report is expected at the turn of the year.

6.2. Ben Hook gave a brief overview of the CBI report “Protecting the UK’s Foundations” and noted the Government’s wider policy agenda on energy intensive industries/climate change issues. He encouraged the group to get in touch with him if they have any comments on the paper.

## **7. Agenda Item 6: Other Ofgem issues update note**

7.1. Phil Slarks highlighted the [Other Ofgem Issues note \(PDF – link opens in a new browser window\)](#) - that was available in hard copy and that would be circulated to group members following the meeting.

## **8. Any other business**

8.1. Eddie Proffitt (MEUC) said that Ofgem had failed in its duty to protect the interests of large I&C consumers by delaying its decision on the gas SCR, particularly given the removal of interruptible contracts for 1,150 companies from 1 October and the fact that no further obligations have been placed on suppliers to help avoid an emergency.

8.2. Giles Stevens (Ofgem) highlighted that it was important not to prejudge the outcome of the Gas SCR. However, he reassured the group that these concerns were noted and would be taken into account.

## **9. Date of next meeting**

9.1. A provisional date of late January was discussed for the next meeting, with liquidity, electricity cash-out, EMR and the Gas SCR suggested as potential agenda items. However, some group members suggested that a pre-Christmas meeting may be necessary to enable members to feed into the Gas SCR consultation. Ofgem committed to consider this and respond to the group.