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Minutes

Smart Grids Forum work stream 6

The second meeting of the work stream 6 of the SGF; regulatory & commercial issues	From	aldridget	18 June 2012
	Date and time of Meeting	29 May, 10am-2pm	
	Location	Ofgem, 9 Millbank	

1. Attendees

Name	Organisation
Dora Guzeleva	Ofgem
Mark Askew	Ofgem
Ben Smithers	Ofgem
Tim Aldridge	Ofgem
James Goldsack	Ofgem
Tabish Khan	British Gas
Robert Towers	DECC
Adrian Butt	DECC
Alice Etheridge	DECC
Dorcas Batstone	Elexon
Paul Bircham	ENWL
Marina Hod	KiwiPower
Craig Dyke	NG
Stuart Brown	NPG
Alan Collinson	SP
Martin Hill	SP
Jim McOmish	SP
Brian Shewan	SSE
Beverley Grubb	SSE
Judith Ward	Sustainability First
Nigel Turvey	WPD

2. DECC Electricity Systems Policy Update

2.1. DECC presented a confidential update on their ongoing work on electricity systems policy.

3. DSR case studies

3.1. At the start of this session, Dora Guzeleva recapped the key assumptions of the working group in relation to DSR:

1. That no sophisticated market for DSR will be established by the start of ED1.

2. The scope of WS6 is limited to exploring DSR within a passive role for DNOs to facilitate timely and efficient delivery of capacity for the connection of low carbon technologies.

3. Until full smart meter roll out (2019) it is impractical to target costs at existing domestic customers who increase demand or generation. Consequently, costs associated with this may have to be socialised. It was noted that if you socialise the costs you may reduce the incentive for individual customers to enter into a DSR arrangements as an alternative means of capacity reinforcement.

4. DNOs should be free to approach all customers (including domestics) to offer DSR contracts on a bilateral basis.

5. Thought needs to be given to the design of DSR contracts in order to preserve the value across the value chain. For instance, contracts may need to contain break clauses to allow customers to sell their DSR into the competitive market if and when a DSR market becomes more mature.

6. It would be very helpful for DNOs' planning and operation to receive notification of where low carbon technologies connect since these may trigger costs on the network and offer scope for a DSR arrangement.

7. There will not be any compromise on the overall security and reliability of the network in RIIO ED1 despite the challenges posed by the connection of low carbon technologies.

3.2. Mark Askew then presented a series of case study scenarios, during which a number of points were made by the group. The key points from the discussion follow.

Granularity of data

3.3. There is a distinction between levels of control required, e.g. restricted hours requires less detail than a call-off contract, which may require direct control and therefore more detailed data. Further, depending on the number of customers involved, there may be a need for real-time data to manage the network.

3.4. Larger customers (>10MW EHV) will have real time energy use data so can be separated out in the case study examples. Some smaller customers will have similar arrangements with the SO through an aggregator.

Customers' right to exit

3.5. The group considered whether or not there is a barrier to DSR contracts if the customer can exit part-way through an arrangement. Such a scenario will mean that the DNO will still have to invest in reinforcement at a later date anyway. It may be possible to consider the value of delaying reinforcement on a yearly basis and only offer a DSR contract to defer investment which will have a lower value than avoiding investment.

Customers who default on DSR arrangement

3.6. The group posed the question: what is the way of treating a customer who has a DSR arrangement but decides to continue to use energy at higher level? Cut-off is rarely used in practice. This is a commercial issue rather than a regulatory barrier. It raises a legal question for further consideration: are all parts of the contract enforceable under law?

Second-comer issue

3.7. There may be a second-comer issue that we need to consider. For example, if the first customer opts for DSR, the second customer pays for reinforcement, then the first customer wants to increase load further, should they be effectively treated as a second comer. It is unlikely that the DNO will ever be able to recover the costs of reinforcement from the first customer.

Sharing information on DSR

3.8. The group considered the impact of a DNO DSR contract on others in the value chain, noting:

- The TSO ideally would like no DSR beyond gate closure at any level.

- Suppliers do not necessarily need notification of DSR, as with system balancing now. DNOs do not have strong obligation to keep the system in balance; they are more concerned with capacity provision at peak demand locally.

3.9. The group noted the potential need for transparency and a compensatory mechanism for DSR. DNOs will need clarity on this for the purpose of business planning. The group asked at what point this information will be needed, which raised further questions:

- What is the level of DSR penetration that requires this transparency? DNOs are thinking about this as part of business planning. We may also get an indication from WS3 modelling.

- What are the implications for DSR on suppliers' balancing positions? Is transparency sufficient or will suppliers need to be compensated for system imbalances caused by DNOs' DSR actions?

4. Notification framework

4.1. Currently, installation of heat pumps may require notification as they are outside the 'connect and forget' arrangements. If not covered by this, the installer should notify the DNO in advance to ensure that network accommodates the technology. ENA is talking to trade associations about pre-notification and using the RHI registration process as a means of receiving notification.

5. Storage

5.1. Mark Askew explained that the main impediment to storage is cost, particularly if DNOs are unable to trade the electricity stored. If owned by third party, that party may have a higher cost of capital compared with DNOs. If DNO-owned, then there is a competitive barrier to others due to the lower cost of capital for DNOs.

6. DSO

6.1. The group considered the potential of a DSO model and the timescales associated with it. It is possible for a mini-DSO to develop for DNOs in the future, but this is unlikely during ED1. The big driver will be changing demand in mid-2020s. The group is looking into the threshold at which a DSO role becomes viable.

7. Date of next meeting

7.1. 18 June, 10am – 2pm, 9 Millbank.