

The background features a large, stylized white arrow pointing to the right, set against a blurred image of a modern building with a glass facade and a large, glowing, multi-layered circular structure resembling a turbine or a stylized sun. The overall color palette is light and airy, with soft blues and whites.

# **Creating the right environment for demand- side response**

Smarter Markets Coordination Group

16 May 2013

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## Smarter Markets DSR work

- **Objective:** To create a market environment that supports efficient system-wide use of demand-side response. Focus on long-term market development
- **Engagement key:** Much work being done in this areas, including Sustainability First, LCN Fund, ENA & Energy UK, academics
- **Consultation:** Essential to gather stakeholders' views on the challenges around demand-side response – to feed in across Ofgem work areas affecting demand-side response

# Consultation and factsheet

**ofgem** Making a positive difference  
for energy consumers

## Creating the right environment for demand-side response

**Consultation**

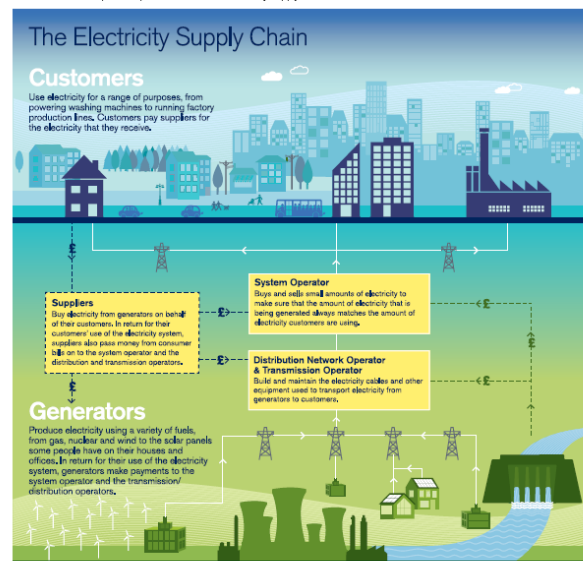
Reference:	64/13	Contact:	Ben Smithers
Publication date:	30 April 2013	Team:	Energy Market Monitoring & Analysis
Response deadline:	28 June 2013	Tel:	020 7901 7000
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**Overview:**

Demand-side response - customers responding to a signal to change the amount of energy they consume from the grid at a particular time - has the potential to reduce customer bills, enhance security of supply and contribute to sustainable development. For various reasons, this potential is likely to increase significantly over time. To help enable the realisation of these benefits, our longer-term objective is to have regulatory and commercial arrangements that create an environment that supports efficient system-wide use of demand-side response.

This document considers and seeks stakeholder views on whether current regulatory and commercial arrangements are fit for purpose or may in some way constrain the development of demand-side response. This work will inform existing and future policy development in this area.

Figure 1: A simplified representation of the electricity supply chain



**Why is demand-side response particularly important now?**

The value of demand-side response is even greater in the context of our changing electricity system:

**The electricity system is being upgraded.** New power stations must be built to replace old ones that are due to close down, and as part of the transition to cleaner energy.

Meanwhile cables need to be built and upgraded to connect these power stations to homes and businesses. All of this will cost money, which we pay for through our energy bills. People willing to change their electricity use at certain times could reduce or delay the need to build these power stations and cables.

**We are changing the way we generate.** With the growth of renewable generation, the benefits of shifting electricity

## Preconditions for creating the right environment for DSR

- **Precondition 1:**

**Industry parties** need to be **confident** that there is value for them in demand-side response to justify the investment

- **Precondition 2:**

The value of demand-side response services needs to be effectively **signalled** to **customers**

- **Precondition 3:**

Customers need to be **aware** of the opportunities to provide demand-side response, able to readily **access information** and able to **act**

## Provisional conclusions

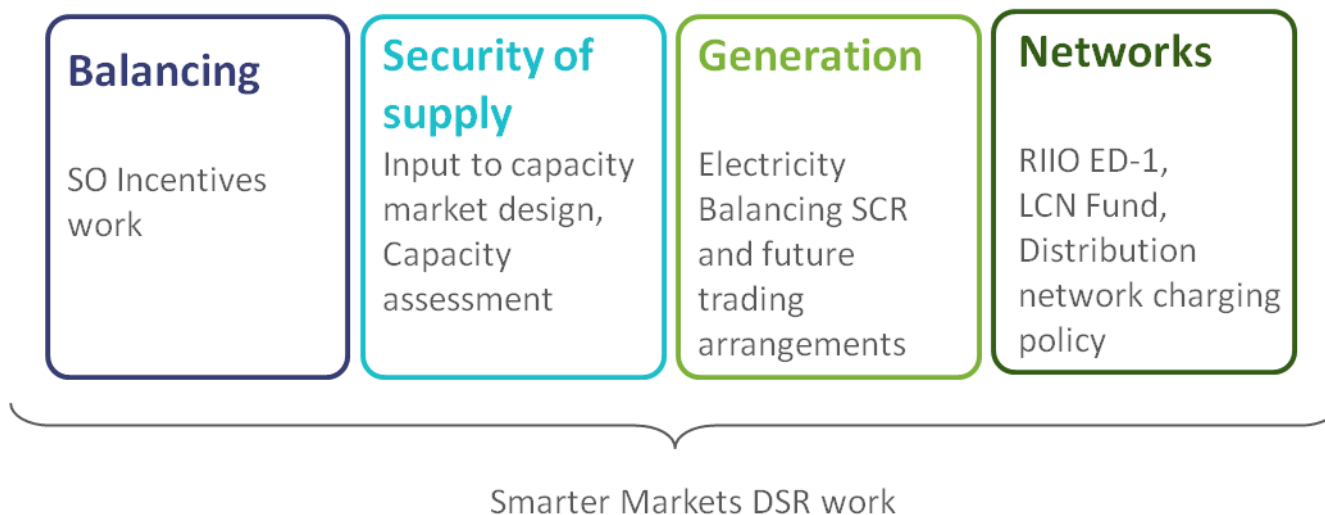
### **Key to focus on areas of the market that can drive change:**

- Revealing the value of demand-side response across the system
  - To ensure its true value is communicated to industry parties
- Making demand-side response more secure
  - To help realise DSR value where it does exist
- Improving signals to customers
  - To stimulate customer knowledge, interest and engagement

### **Other challenges will materialise as demand-side response products develop**

**Potential solutions:**            **Incremental change to current arrangements**  
**More significant reforms?**

## Work already underway



**Important links with the Smart Grids Forum, especially WS6**

## Consultation questions

- Are there additional preconditions?
- Do you agree with the challenges we have identified?
- Do you agree with the priority and timing?
- Is current work in progress sufficient?
- If not, what additional reforms are required?

## Next steps

### **Consultation open until the end of June (28<sup>th</sup>)**

- Respond formally/ informally
- Keen to reach a wide range of stakeholders

### **Next steps**

- Will produce our follow-up conclusions document
  - Will summarise stakeholders' responses
  - Conclude on challenges
- Will identify any gaps in current work and a way forward, including how we think the challenges can be addressed