



CIA Response to OFGEM Consultation “Creating the right environment for demand-side response”

The Chemical Industries Association (CIA) is the trade association and employers federation for chemical and pharmaceutical businesses located throughout the UK. The chemical and pharmaceutical industry contributes £20 billion per year to the UK economy, provides direct and indirect employment for over half a million people and is the UK’s number one manufacturing exporter. The chemical and pharmaceutical industry is energy intensive energy users and was the largest consuming industrial sub-sector (at 51TWh) in 2011.

The Chemical Industries Association welcomes the chance to respond to OFGEM’s consultation on ‘Creating the right environment for demand-side response’ and are pleased that OFGEM recognise the role demand side response (DSR) can play in delivering more efficient and competitive markets.

The following points give a quick summary of some of the broader concerns we have with the consultation:

- Although some of our companies may be interested in the opportunities presented by DSR, many of our companies are unable to provide DSR activities due to the nature of their industries. These companies run large continuous processes and do not have the ability to switch off or down at short notice. In many cases the cost of interrupting the contract is more than the savings incurred from not using the electricity.
- The document focuses on a broad range of energy users and therefore the proposals do not incorporate the unique profile of energy intensive users.
- Although the document states that the focus isn’t on how customers can provide DSR, there is still a lack of clarity within the document regarding how DSR will work operationally (i.e. no detail on the amount of notice that would be given to consumers who provide DSR services)

We would suggest that once OFGEM have collated the responses from this consultation that a further consultation is issued detailing the impacts on end-users with a specific focus on individual sectors.

More detailed comments on individual questions are outlined below.

Consultation Questions

Question 1: *Are there any additional key challenges associated with revealing the value of demand-side response across the system? If so, please identify and explain these challenges. N/A*

Question 2: *Can current regulatory and commercial arrangements provide the means to secure demand-side response being delivered? If not, what will regulatory and commercial arrangements need to deliver in future? N/A*

Question 3: *Is current work on improving clarity around interactions between industry parties sufficient? If not, what further work is needed to provide this clarity? N/A*

Question 4: *Are there any additional key challenges associated with effectively signalling the value of demand-side response to consumers? If so, please identify and explain these challenges.*

- Most electricity prices remain constant over the course of the day and between seasons despite the system-wide cost of electricity changing over these periods. Although some members of the CIA have the opportunity to provide DSR services on a seasonal basis, the differing price signal over these periods is not being effectively communicated to consumers with this capability.
- The CIA are concerned that there is limited explanation over how exactly the 'dispatch signal' will work. Although this document isn't specifically to detail how DSR may work for end users, it would be useful if more explanation and clarity surrounding these issues was provided.
- One of the options cited to provide a signal of the value of DSR was a combination of ToU tariffs with direct load control. As many of our members operate continuous processes, it is difficult for them to engage with a market signal involving direct load control.

Question 5: *Do you agree that signals to customers need to improve in order for customers to realise the full value of demand-side response? Does improving these signals require incremental adaptation of current arrangements, or a new set of arrangements?*

- CIA agrees that pricing signals to customers do need to be improved in order to facilitate demand side response. Locational variations and the granularity of time bands need to be considered when assessing the current pricing arrangements.
- CIA would advocate that these signals are passed through suppliers rather than different parties across the supply chain.

Question 6: *To what extent can current or new arrangements better accommodate cross-party impacts resulting from the use of demand-side response?*

- The CIA would advocate that insofar as is possible that the value of DSR is communicated via the supplier rather than by different parties within the supply chain. Contracting DSR services from different parties across the supply chain is an additional burden for end-users.

Question 7: *Are there any additional key challenges associated with customer awareness and access to opportunities around demand-side response? If so please identify and explain these challenges.*

N/A

Question 8: *Is any additional work needed to explore the role of third parties in helping customers to access and assess demand-side response offerings?*

- Industry users have a good understanding of the energy market and typically do not need third party help in assessing opportunities.

Question 9: *Are there additional preconditions for delivering the right environment for demand-side response? If so, please explain what these are and why they are important, as well as attaching a priority relative to those challenges we have already identified.*

N/A

Question 10: *Do you agree with the priority and timing we have attached to addressing each of the key challenges identified above?*

N/A