

ESTA RESPONSE TO:



Creating the right environment for demand-side response Ofgem - Ref: 64/13

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ESTA Energy Services and Technology Association

ESTA is the UK Industry Body representing suppliers of products, systems and services for Energy Management. The 120 members include energy consultants, aM&T providers, controls manufacturers through to full Energy Services/Contract Energy Management mainly working in the I&C sector.

ESTA is engaged with UK Government policies on Energy and Climate Change, The Green Deal, Energy Performance of Building Directive, Part L Building Regulations, Display Energy Certificates, Carbon Reduction Commitment, Energy Efficiency Directive and the rollout of smart and advanced meters. It also provides UK input to developing international energy management standards and Chairs several BSI committees.

ESTA members are key to the UK's realisation of a low carbon, secure and affordable energy future. Our members provide equipment, systems and services for energy management to reduce energy demand at source and including renewables.

Our response is a majority consensus of the members involved. Where ESTA members respond directly, they may offer differing opinions on some issues, which we respect as expressing their own definitive view.

Creating the right environment for demand-side response

ESTA welcomes the opportunity to respond to this consultation reviewing current regulatory and commercial arrangements for the operation of a fit-for-purpose demand-side response market; which is seen as integral to the future of a low carbon economy.

Whilst ESTA prefers continued reduction methods through permanent demand side efficiencies, we understand the need for demand response mechanisms to be brought into play to ease the tightness in generation and/or cost at certain pinch points.

We anticipate that demand response measures adopted by consumers will also assist in complete energy efficiency measures as part of an organisations strategy, not only positively impacting the governments binding carbon reduction measures but continually improving security of supply and reducing reliance on volatile energy markets for our electricity generation.

ESTA suggests that Government policies require more robust consumer engagement techniques in order to maximise opportunities. With limited demand-side lobbying resource, Government bodies need to do more to engage with demand-side participants to bring about much needed change to the industry.

Key to this is consumer communication through clear and concise information, availability of granular data through the means of an information hub and an awareness campaign to promote what opportunities are available. Also needed is a repository of successful case studies of where similar projects have been implemented and proposed solutions for barriers to entry for market participants.

ESTA understands the need for market-led incentives, however traditional financially fixed rewards in certain areas (similar to a targeted scrappage scheme), should be explored for promotional periods, as part of an initial awareness campaign for the much greater opportunity.

Above all however, policy and regulation certainty is a must for any longevity in newly formed energy market measures. ESTA seeks reassurance that cross-party support for key undertakings is agreed to in advance of any significant roll-out in order for fundamental alterations and/or u-turns to be avoided. Lessons from the CRC scheme, and more recently Green Deal implementation need to be understood in terms of demand-side investment based on scheme proposals.

The right environment for demand-side response

Precondition 1: Industry parties need to be confident that there is value for them in demand-side response to justify the investment

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.

The additional key challenges in the industrial/commercial sector can be summarized as follows:

1.1 Lack of clear, concise information to building operators on what can be achieved with available technologies and services. Simplified strategic marketing approach needed by Government & industry to create a compelling argument to aid uptake.

1.2 Lack of awareness by building operators in the private sector of financial incentives available. Simplified marketing approach needed by Government and industry to create a compelling argument to aid uptake.

1.3 Lack of granular data on completed projects via an internet hub by building type. This hub could be similar to the CIBSE/ CT Carbon Buzz site but more granular to spell out success/failure in terms of capital outlay/incentives/ payback of individual technologies and manufacturer/ source of supply. This will address the growing concerns of building owners who hear of 'over selling' of payback periods. In effect this will identify appropriate technologies and develop manufacturers/ suppliers track record as legitimate suppliers to enable the building owner to make an informed choice.

Without tackling the above information and awareness issues, expanding demand-side response further into the industrial/commercial sector and the advantages that will bring will only afford those at the sharp edge the opportunities government and industry are bringing to the energy market.

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?

The current/near-future regulatory and commercial arrangements need simplifying at the point of delivery to a building owner in order to create an easy to understand compelling argument to the building operator. Suggest a matrix table by building type linking to proven technology implementation (see response 1.3 above):

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?

Further work is required to streamline the interactions process with a much leaner process. The current system is cumbersome and can delay outcomes which in turn potentially delay the overall Carbon Reduction Obligation for the UK.

Precondition 2: The value of demand-side response services needs to be effectively signalled to customers.

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.

The current/near-future regulatory and commercial arrangements need simplifying at the point of delivery to a building operator in order to create an easy to understand compelling argument to the building operator.

ESTA suggests creating a matrix table by building type linking to proven technology implementation (see response 1.3 above).

Specific areas to address are (domestic) what exactly is the benefit of smart metering to the house holder in the short to medium term (or until full smart home integration) or is the benefit only realized by the supplier?

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?

Yes, signals to customers need to improve by incremental review and update (see response 1.3 above). The outcome may well be a new set of arrangements based on a 'lessons learned' review of current arrangements.

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

More work is required to streamline the interactions process with a much leaner process.

Greater use of case study outcomes, needs to be used to prioritise elements of such a process that reflects value for money by market sector. Again, suggest a matrix/hub type communication methodology at building operator level.

Precondition 3: Customers need to be aware of and able to access the opportunities.

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

Although not a hugely popular suggestion (source: DECC Consultation on options to reduce electricity demand- Government response May 2013) the rationale of periodic promotional incentive schemes should be marketed to building owners with defined promotional periods.

In order to further illustrate this idea, any outcomes from recent scrappage schemes such as older cars and boilers should be analysed as part of an informed decision-making process. If deemed historically of value, scrappage schemes could be implemented to promote other technologies.

Again, the DECC Consultation of May 2013 highlighted that the most popular choices are likely to be Building Energy Management Systems (BEMS), lighting and lighting control.

As a recent example, it should also be noted that SALIX were promoting their finance offering by targeting the education sector back in late 2012.

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?

Yes. See response 1.3 to question 1. This is preferable as it will allow building operators (rather than manufacturers/ suppliers) to post project information based on their experience as available information to other building operators. This will assist in allowing others to make informed choices about suppliers/manufacturers/product type to implement in their buildings.

Also refer. To response 1.1 & 1.2 to question 1 as a means to enable access uptake.

Conclusion and next steps

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 these challenges we have already identified.

Additional preconditions proposed.

9.1 (urgent) In terms of existing buildings not subject to major redevelopment regulation compliance.

Consider communicating a message that with the introduction of smart meters, building operators can manage their loads by incorporating existing technologies to suit their requirement in a responsible way.

The 'do nothing' approach by building operators could result in remote load reduction by the supply vendor as a last resort in order to implement demand-side reduction. While it is inevitable that suppliers will move further into the demand-side response arena by targeting their portfolio, the opportunities for customers and the demand-side supply chain can maximise reductions rather than utilising a broad-brush approach to the problem.

9.2 (urgent) targeted scrappage. (see response to question 7).

Priorities to challenges already identified.

No comment (in respect of table 6 page 41 of reference document) other than changing the effect of cross party impacts from moderate to high.

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

Yes, in principle. But needs to move forward in a synchronized way in order to fit in with other relevant legislation (ADL where relevant e.g.).