



To: smartermarkets@ofgem.gov.uk

Attention: Ben Smithers and the Ofgem Smarter Markets Team

Response to the consultation on creating the right environment for demand-side response

This response will highlight the key market, policy and system changes needed to ensure that Demand Side Response (DSR) and Demand Side Management (DSM) are able to make a significant contribution to meeting the future needs of the energy system and support the transition to a vibrant low carbon economy. It will not strictly follow the structure and format set out in the consultation invitation letter. These views are the product of work with various stakeholders in the sector, including technology vendors, utilities and other organization types. These views have also been discussed and debated in numerous open fora, some of which the smarter markets team have been privy to, and will attest to the robustness and validity of the views expressed here.

The ability to effectively leverage DSM and DSR are the central and critical outcomes on which the socio-technical transformation of the energy sector is based. The energy sector transformation is in turn the central pillar of the transition and paradigm shift to a low carbon economy. It is thus necessary to understand the context and importance of DSM and DSR, as this importance underpins the justification for necessary actions to ensure that sustainable and effective markets in DSR and DSM emerge.

DSM and DSR and the ecosystems that they require provide a lower cost to achieve the energy system transformation, they do so in a way that starts to develop a service orientated economy that through its engagement with consumers starts the difficult process of altering consumer consumption patterns from those that are carbon and resource intensive to those that are more benign. The additional cost associated with traditional network reinforcement to accommodate renewables, electric vehicles, heat pumps and other low carbon technologies cannot therefore only be measured in terms of the additional infrastructure cost alone, but also in the time, carbon and missed opportunity costs associated with not starting to shift behaviour patterns around consumption more generally. These less “tangible” costs if assessed will shift the increased cost impact of traditional reinforcement not in the order of multiples but by orders of magnitude, this as a result of the secondary and tertiary impacts that traditional approaches would have, in a transforming world.

The progress to date to develop the potential for DSM and DSR has been positive, in particular the identification of the need for innovation funding as well as the development of support mechanisms to incentivise the nascent market in DSM and DSR through the capacity mechanism. These actions are however not sufficient to ensure that DSM and DSR thrive and become an integral part of the energy system. This is in particular due to the fact that all these measures are incremental in nature, with the DSM and DSR components being additions (not central) to broader or associated policy actions. To ensure that DSM and DSR emerge effectively there are three key areas that require direct and transformational policy and government action, these are:

1. Specific actions and possible legislation or restructuring to overcome lock-in to an energy system operating paradigm that is currently Transmission System Operator (TSO) driven to one that is driven by a federation of Distribution System Operators (DSO) where the TSO plays a facilitation role. This is critical as DSR and DSM are services that are not fully fungible and need to address localised needs and constraints, hence control and implementation of services needs to be devolved.



2. Establish obligations on market players and stakeholders that will ensure that market for DSR and DSM is highly liquid and that these services exist at a merit order level that will ensure significant and sustained investment. This will require obligations that are punitive as well as incentives, and will vary for different market participants based on the nature and scale of the challenges they face in transforming their operations. Certainty around this provision will be crucial in driving investment.
3. Develop and support an ecosystem for DSM and DSR market actors that will enable the emergence of a Vibrant and Innovative market place for these actors and the services they provide. With the correct institutional support this will result in the emergence of strong investment interest and flourishing customer engagement by market actors. This will require incentives and a broadening of access to innovation funding as well as preferential access to government and regulatory bodies.

Some suggestions have been provided above as to how these necessary transformations can be achieved. There are no doubt other ways to achieve the necessary transformational changes, however what is not at question is that transformational change is needed and needs to be arranged in a way that that necessary but potentially unpopular (short term) provisions will not be changed by successive governments.

If you would like further details, or have any questions or require clarification please feel free to contact me directly.

Yours sincerely

Sacha Meckler

Managing Director

Meckler Consulting Ltd