

Investigation by a joint DNO / TSO working group has already identified areas of conflict & synergy and are seeking to develop a proposed sharing framework. This should help prevent a situation where each party is creating a competitive impact that will result in a participant site selecting a sole programme and causing a price battle between the operators to attract the right response sites. Avoidance of this situation is critical in order to ensure best value to the consumers who ultimately fund the network operation, but also to maximise the value to participant by enabling broad functionality that will allow multiple programme involvement.

Electricity Suppliers are likely to be one of the most extensive users of DSR in the future but they currently appear to be only monitoring the activity of the other stakeholders, and not defining their likely requirement or service models. Typically when challenged to declare an interest or offer a greater insight to their expected requirements, they decline to respond on the basis of commercial confidence within a competitive market. While this is to some degree understandable, to avoid a future conflict of interests it would be of great value if the suppliers could be compelled to declare their intent as to potential future use cases.

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 the future?

SGC Response

The precondition correctly identifies the need for investors to be confident that the value of demand side response services will warrant the effort and expense in creating the commercial frameworks, systems for monitoring, requesting action and evaluating response, financial systems etc.

Further to the response for Q1 it is apparent that when DNO / TSO are compared, it is clear that the majority of conflict is associated with the contractual arrangements and not the use case. A TSO will make relatively regular use of DSR at short notice & generally without a geographical requirement. A DNO's primary concern is for a geographic response which can potentially be instructed in excess of 7 days' notice but to be economically justified against alternatives the usage will be very occasional. Current commercial arrangements do not support multiple programme participation, but a single framework would offer investors & participants the benefit of working to address both use cases and offering some level of service diversity.

Any potential diversification is likely to help create some stability around the participants expectations of payment / return on investment. This would be of benefit to all stakeholders as the recent volatility seen within the National Grid's STOR programme has undoubtedly resulted in damage to the perception of DSR's value model. SGC's direct experience with parties that it advises has confirmed several long term participants of STOR are considering alternative strategies that involve temporary or even permanent withdrawal due to uncertainty around earning expectation and contractual continuity.

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?

SGC Response

There is currently a variety of different working groups underway and while this is helpful to gain the views and input of stakeholders there are competing opinions and some of the stakeholder groups are significantly more vocal than others. The current volume of meetings and events coupled with a growing number of member only groups such as 'Demand Response Association' & 'Smart Grid GB' raises concerns that the future market will be shaped by those who can fund the expression of narrower interests rather than a holistic solution that is best for consumers who ultimately fund the TSO, TNO & DNO programmes.

This consultation is a clear step in the right direction if it is able to garner the views of more than just the usual vocal stakeholders, and understand the overall landscape and not just those who are seeking to directly influence for limited direct benefit.

Precondition 2

The value of demand-side response services needs to be effectively signaled 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.

SGC Response

Competing DR programmes are likely to increase confusion and therefore increased flexibility of terms within existing and proposed programmes will broaden the opportunity for participants and open the likelihood of cost sharing. By programme owners working together to provide clear, unambiguous messages to consumers about what DR is and the performance criteria it should be possible to establish a generally acknowledged 'Value Proposition' for the industry.

One area of particular concern is a growing number of third party providers who seek to engage the market with a mix of service propositions, levels of commitment to the industry and market knowledge. In some cases this has the impact of either inadvertently generating confusion or even misleading potential participants. They currently have no obligation to the regulator or even a code of conduct under which they operate. It would therefore be a worthy consideration to implement some form of governance to ensure standards are established amongst third party service providers.

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?

SGC Response

Without the clearly stated intent of Electricity Suppliers as to how they may use DSR and also DSM techniques such as TOU tariffs it would potentially be premature to create a new set of arrangements to signal the value. This may become necessary over a longer timescale, but at this present stage of development an evolution of the current arrangements is likely to be considered appropriate & pragmatic.

Question 6

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

SGC Response

As per the previous questions, we feel there is value in exploring the benefits that could be achieved from having a coordinating body / shared service model for demand side response. Competition in demand side response, is unlikely to provide efficiency, in addition to acting to reduce long term certainty for DNOs and so a more co-operative approach would be preferable.

Precondition 3

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

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?

SGC Response

As per the previous responses it is the view of SGC that some level of regulation or code of conduct should be seriously considered to ensure that industry has a consistent approach and the third parties play a recognised and valued role in market development.

Currently SGC offer a service to potential participants to address the current, widely held concern that they need assistance to assess their own capabilities and match them with relevant programmes or third party service providers. It is relatively typical for a potential participant to require to undertake often expensive upgrades to site infrastructure and / or assets in order to gain the necessary technical capability to offer DSR. In many cases this will present a variety of options that can result in confusing contradictions directly from third party service providers. Without more formal arrangements to provide governance

around commercially motivated third parties then it should be expected that there will be a continued need for independent advice.

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.

SGC Response

It is a small observation, but the current central resource to identify third party suppliers / aggregators is the National Grid suppliers page.

<http://www.nationalgrid.com/uk/electricity/balancing/demandside/aggregators/>

For many potential participants, this is their first port of call to gain a greater understanding of the market and identify third party assistance. The information on this page is badly maintained and contains incorrect details, companies not committed to or no longer providing service. As part of SGC's role in a recent LCNF project it was recognised the poor impression this gives for the industry. A centrally maintained register of third party companies that are committed to an agreed service quality supported by guarantees and signed up to a code of conduct would be a welcome resource to add confidence and trust to this important aspect of the industry.

It would be preferred if this resource could in addition be categorised further to include a summary of services offered by each third party and include 'non-service' based parties such as SGC who can assist by offering more impartial advice where desired.

Question 10

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

SGC Response

Yes.