SP ENERGY NETWORKS

Future Networks

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Your ref
64/13
Our Ref
DSM-01
Date
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Contact / Extension
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Dear Ben,

Creating the right environment for demand side response – Ref 64/13

SP Energy Networks welcome the opportunity to respond to Ofgem's published consultation seeking views on creating the right environment for demand-side response published on 30th April 2013.

We see demand side response services as being a very useful tool to help minimize network costs whilst also continuing to maintain the quality and security of supply to our customers. The LCNF trials are demonstrating that network operators are starting to better understand how they may make use of such services. Our view, which has been reinforced by recent feedback from these trials, is that key to the successful deployment and rollout of such services and products is the need for clear rules on the contracting and use of such services, and also on how the various market participants will interact.

Our detailed comments are attached to this letter, and I would happy to discuss any of the points made.

Yours sincerely,

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Precondition 1 (Industry parties need to be confident there is value in DSR response to justify 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.

A critical aspect to the successful rollout of demand-side response across the GB system is ensuring that all stakeholders have adequate incentives to participate in the market. The main challenges associated with revealing the value of demand-side response across the system surrounds the fact that the value of demand-side response will be seen differently by industry stakeholders.

Suppliers and network operators will tend to have different perspectives on the value from participating in the demand-side response market, due to their exposure to different cost drivers. In particular, there are likely to be conflicts during periods of network stress that could prevent certain participants realising the greatest value through participating in the market.

A major focus of network operators will be encouraging a customer response that enables the management and limit of local system peaks in demand or generation flows. This will also be critical during a post-fault scenario where demand-side response is used to restore or maintain security of supply.

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?

Regulatory and commercial arrangements should be focused upon creating the right conditions to enable the demand-side response market to develop. It is important to ensure that the regulatory regime, in conjunction with wider policy developments do not unnecessary restrict the ability of market participants to develop demand-side response capabilities and that all market participants have the ability to share in the benefit of developing demand-side response products and services.

Question 3 – Is current work on improving clarity around interactions between industry parties sufficient? If not, what further work is needed to provide clarity?

We believe that the existing industry workgroups and forums have improved the communications between industry parties on this issue. However further dialogue is required in order to understand the objectives of all industry stakeholders and how they intend to use demand-side response in future in a way that avoids unintended consequences for other parties. To date there is evidence of network companies being proactively engaged in providing a view on how they intend to use demand-side response initiatives to manage and operate their networks and indeed this has evolved over the previous 6-12 months to improving the understanding on how demand-side response services may be shared between distribution and transmission network

operators. However, a significant gap exists in understanding how suppliers intend to engage in the demand-side response market and how this will interact with network operators.

Precondition 2 (Value of demand side services needs to be effectively signaled to customers)

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

In the current market the impact of demand-side response via DUoS charges is indirect and can only be realised by end consumers via supplier tariffs. This is also further constrained by existing technology and the regional nature of CCDM DUoS tariffs.

Smart meters form an integral part of overcoming some of the challenges in signaling the value of demand-side response to customers as it is hoped that they will increase customer awareness of energy consumption. This is fundamental if domestic and small business customers are to become more active in the demand-side response market.

Furthermore in order to ensure that value is signaled to end consumers a new or defined market model is required to prescribe clear roles, responsibility and hierarchy for market and system operators.

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 adaption of current arrangements, or a new set of arrangements?

Not only do signals to customers need to improve it is also important that customers recognise who is sending those signals and how they can benefit from that response. There are a number of existing trials being taken forward under the Low Carbon Network Fund which will provide learning on the most appropriate methods to deploy and customers' response to varying signals. In order to fully realise the benefits of demand-side response we believe that there needs to be an agreed set of arrangements between suppliers and network operators that will deliver better cooperation and understanding. These will need to set out clearly when it is appropriate for market participants to use demand-side response services and ultimately which party has priority in given circumstances. Such changes will in turn allow customer to benefit from this emerging market and provide a reliable and secure electricity supply whilst facilitating the transition to a low carbon economy.

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

Coordination and delivery of a clear set of rules surrounding the contracting and use of demand-side response services and how market participants interact is key to successful

deployment and rollout of demand-side response services and products. There is current evidence that demonstrates that network operators are starting to better understand, through participation in LCNF trials, how they may make use of demand-side response services. Many DNOs are now actively engaged under the Energy Networks Association auspices in understanding how certain services may be shared between distribution and transmission operators to relieve network constraints on a local geographical basis. However, this level of cooperation and interaction is not being demonstrated by other market participants which may reflect competitive market considerations and reluctance to fully engage for fear of losing first mover advantage.

Precondition 3 (Customers need to be aware of opportunities to provide demand-side response, able to readily access information on options and able to act)

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.

The vast majority of customers only recognise the relationship that they have directly with their energy supplier. Deployment of smart meters should enhance customer awareness and opportunities to participate in the demand-side response market. In addition, those customers who are actively engaged in the energy market through the installation of distribution generation

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?

We believe that if the correct market conditions are set and a clear set of principles and guidelines established to develop demand-side response services, then the role of third parties in helping customers to access and assess demand-side response offerings will evolve. A good example of this is the role of aggregators in the both the current and future market. The current market for demand-side response services, particularly at a transmission level show that if the market incentives are correct third parties will be able to adapt and participate in that market. Fundamentally more work needs to be undertaken to understand the how existing market participants plan to use and deploy demand-side response and what affect this may have on other market participants. This we believe should is of high importance and should begin to be addressed now.

The evolution of smart grids and greater opportunities for real-time information through the installation of smart meters will provide a platform to develop new commercial opportunities.

Conclusions

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.

Our responses to questions 5 and 6 in particular set out some of the steps we think need to be taken to prepare the ground for an environment for more effective demand side response.

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

In principle we broadly agree with the priorities and challenges identified in Table 6. Some of the potential demand-side response related innovations such as those referred to in Appendix 2 may require amendments to the regulatory regime to be widely implemented, for example to address non-discrimination requirements.