

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 933 2175
Fax 0117 933 2428
Email asleightholm@westernpower.co.uk

Ben Smithers
Energy Market Monitoring and Analysis
Ofgem
9 Millbank
SW1P 3GE

Our ref

Your ref

Date

-

24 June 2013

Dear Ben,

Re: Creating the Right Environment for demand side response

Thank you for requesting WPD comments on the above consultation document. Your document provides a useful summary of the issues surrounding demand response services. In particular I am pleased that the paper recognises the importance of developing a market that can be accessed by DNOs to resolve local network constraints as well as for GB system balancing.

The annex to this letter contains responses to the questions posed. Should you wish to discuss any aspects of this response please contact Roger Hey, WPD Future Networks Manager. (rhey@westernpower.co.uk)

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Annex – Creating the Right Environment for demand side response (DSR)

Precondition 1

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.

- 1.1 We agree that some industry parties (including DNOs) require DSR to be location specific whereas for others this is not the case. Due to this DSR will not be consistently valued for all customers.
- 1.2 To enable a regime where non-location specific requirements are met in a way to resolve location specific issues it may be logical to establish a central co-ordinating body for operating DSR schemes.
- 1.3 The current contractual arrangements for the System Operator 'balancing services' prohibit a DSR participant from providing additional services to others due to the terms set out. These terms are subject to ongoing discussion at industry working groups to identify safeguards that will facilitate DNO led DSR.
- 1.4 Some of the estimates of the size of the DSR may be optimistic. It is possible that customers will be less willing to engage. This risk should be factored in to any cost benefit assessment exercises.

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?

- 2.1 Regulatory frameworks will need to recognise the effort and expense needed to create the commercial frameworks and systems for DSR
- 2.2 DNOs implementing DSR as an alternative to conventional network investment will need to factor in the uncertainty of contractual or technical dispatch failure. This may lead to DNOs over provisioning DSR if justified on network risk. Commercial penalties cannot fully compensate for all potential outcomes of a failure in DSR.

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?

- 3.1 A recent demonstration of the agent based modelling that was incorporated in the *Cascade Project* by Cranfield and De Montfort University showed how agents interacted in the existing balancing market. It may be useful to use agent based modelling to determine whether introducing a co-ordinating DSR Operator would improve the overall system efficiency.

Precondition 2

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.

- 4.1 The locational value of DSR is unlikely to be logical in the minds of most customers since they have little awareness of their network infrastructure. DNOs will need to be able to demonstrate that a fair valuation of DSR has been calculated and explain the rationale on a case by case basis.

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?

- 5.1 The paper identifies the issue of suppliers smoothing out price DNO signals. DNO price signals are relatively weak compared to other factors, e.g. the variation in wholesale prices over time. Additional transparency of network charges on customer bills (as already implemented by some suppliers) could encourage uptake.

Question 6

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

- 6.1 Please see the previous responses.

Precondition 3

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?

- 8.1 There is a risk that without appropriate safeguards competing third party DSR companies will confuse customers. It may be advantageous to develop a common framework, terminology and code of conduct for all DSR market participants.

Conclusion

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.

- 9.1 We have not identified any further items.

Question 10

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

Yes.