



6th December 2013

Rachel Fletcher

Ofgem

9 Millbank

London

SW1P 3GE

Dear Rachel,

The UK Demand Response Association has reviewed Ofgem's Impact Assessment of National Grid's proposed new balancing services and we understand that the decision facing the Gas and Electricity Market Authority (GEMA) is whether the two products proposed by National Grid – that is, DSBR and SBR – are in the best interests of consumers. We have the following comments we would like GEMA to consider when making its decision to accept or reject National Grid's application:

- . Consumers will not get maximum benefit from DSBR unless it is a good programme, and we do not consider the current programme design to be good.
- . Experience has shown that programmes where most or all of the payment is for *delivery* – like DSBR – are much less successful than those where the emphasis is on the *availability* payment¹.
- . DSBR as currently designed requires the companies providing DR to take a view on future electricity supply demand balance. This is not their core business and so they will take a very cautious view about possible benefits to them from DSBR.
- . Payments to DSBR providers should not depend significantly on how often they are required to deliver. Moving towards an emphasis on availability payments places the risk of judging how much DSBR to purchase with National Grid, which is best placed to manage this risk.
- . A poorly designed DSBR will lead to unreliable demand response, which will give the demand side an undeservedly poor reputation. This is not in the interests of consumers as it biases

¹ NERA, October 2013, *Effective Use of Demand Side Resources: The Continued Need for Availability Payments*. Available at: http://www.nera.com/67_8307.htm



the system in favour of generation.

- . SBR is designed to support existing generation, DSBR to support new. This means DSBR must pay for the capital cost of developing new demand response, while SBR does not have to pay for capital costs for generation. This could be resolved by altering the baseline method.
- . A more appropriate baseline would ensure that demand response could participate in other programmes such as triad management, which would lead to more cost-effective demand response and lower costs overall to consumers.
- . In order to prevent SBR from creating distortion in other areas of the market – which would have knock-on effects for other resource types and would raise costs for consumers – it is essential that SBR is designed so that all plant with technical capability to offer SBR can participate in SBR auctions.
- . DSBR is not a reason for delaying the Transitional Arrangements within the Capacity Market, and we understand that Ofgem and National Grid agree.

If National Grid's proposed changes to its Condition 16 statements are approved by GEMA, we believe that it will be essential for the points above to be revisited as details of the two programmes are developed. Should you require any further clarification on the points we have raised in this letter, please do not hesitate to contact me.

Yours sincerely,

Sara Bell

On behalf of the UKDRA