

BEIS/Ofgem: a smart, flexible energy system – call for evidence

Response by MEUC

Introduction

The Major Energy Users' Council (MEUC) is a representative organisation that supports the interests of larger commercial and industrial businesses for whom energy represents a significant proportion of their operating costs. Its membership also includes a number of public bodies, local authorities, universities and the like. It has estimated that its members annual electricity consumption amounts to approximately 25% of that by all industrial, commercial and public bodies in the UK.

Enabling storage

Whilst we appreciate that BEIS and Ofgem may have identified barriers to investment in electricity storage there seems to be little evidence to support the view that battery storage is likely to be a more than a peripheral competitive solution to security of electricity supply for the foreseeable future. There has been much talk recently about the future of lithium-ion batteries but they are yet to prove a competitive solution. Lithium as a raw material is not an unlimited source. If network operators are to use battery storage as a reinforcement medium, then it seems reasonable that a solution be provided to produce appropriate incentives to do so. This may have to include their ownership by the network operators.

Aggregators

Balancing services – barriers. There is a belief among consumers and aggregators that the System Operator (SO) favours generation over DSR, evidenced by the early capacity auction for generation planned for January 2017 before the Transitional Arrangements auction planned for March 2017 with the volume limited to 0.3 GW or 0.56% of that for the early capacity auction. In addition, the value paid for DSR is considerably less than that paid for generation. If DSR is the lower cost option surely the Transitional Arrangement auction should be held first with no limit on the capacity to be agreed, with the remaining volume then available in a following Early auction.

Considering the options listed in table 5, history with Third Party Intermediaries (TPIs) has shown that a **watching brief** by Ofgem has totally failed to improve TPIs behaviour. The danger of adopting the same approach for aggregators, as the numbers grow, will lead to similar areas of complaint from consumers.

The second option of a **Voluntary code of practice**, the development being led by the Association for Decentralised Energy (ADE) is an area that MEUC is contributing to as the sole consumer representative attending meetings to date. Although the intention is admirable the outcome will lack effect due to an absence of “teeth”. There will be no compulsion to sign up to the code and the punishment for any breach of having their name removed from the register will have no impact as National Grid have declared that they will do business with any aggregator whether a code signatory or not.

The third option of a **Mandatory code of practice** must be the minimum acceptable across the industry in order to ensure reasonable behaviour from all parties. The ultimate of course would be to licence aggregators in the same way as suppliers and incidentally as the gas industry has done with suppliers and shippers.

Licencing of aggregators will become more critical when DSR is introduced to domestic and small non-domestic loads as the bulk of this class of consumer will not understand the relationship between their supplier and an aggregator. For example, with the same group of consumers, there is a total lack of knowledge of a shipper being involved in their gas supply. We would therefore suggest that to facilitate expansion of aggregator activity into the smaller end of the market an aggregator/supplier licence needs to be introduced, which would also obviate the need for a code of practice.

Members mostly buy their energy through the flexible market and are fully aware of the all the costs that make up their bills. Energy only amounts to a proportion of the bill and their ability to be flexible has to be weighed against the fixed levies which by 2020 are estimated to be 50% of the total bill for a typical larger user.

Much of the saving in high voltage transmission network use of system charging costs (TNUoS) have been through so called “triad avoidance” which National Grid has propagated for many years. The mechanism has undoubtedly been of great benefit in limiting peak demand on the grid network, with National Grid estimating this contributes 1.9 GW of demand reduction (4% of peak demand). Any changes to TNUoS charging need to be carefully thought through.

Smart Pricing

Ofgem recently approved a modification to Distribution Network (DNO) charges providing a benefit to those who did not load manage and conversely reduced the benefit to those that did. Although one could see the bureaucratic arguments for this change it may well prove to have been a regressive change.

If consumers are to respond to smart pricing signals they need to have certainty. Every time a change occurs to the DNO charge mechanism it works against the incentives Ofgem wishes to encourage. Volatile changes in distribution charges are disruptive for consumers and cannot provide a meaningful signal for investment either in distribution capacity (or ‘smart’ alternatives).

Other Government policies

The MEUC has been concerned for a number of years that renewable subsidies have fallen into the trap of government “picking winners”. Solar energy has benefitted the better off hugely, with the costs being passed on through the feed in tariff to other market participants including the fuel poor. It seems perverse that wind energy can benefit from being constrained off. Future charging mechanisms should reflect the true cost. We have concern that the government seems to be relying on a policy of inflexible nuclear for base load with no alternative under consideration. Should electric or hydrogen powered vehicles become the norm it may well be that demand for base load will increase significantly with the better off again benefitting from subsidies.

Consumer Engagement with DSR

MEUC has been involved with National Grid’s Power Responsive (NGPR) project since its inception, having helped put together an audience for the initial launch event and being part of the steering group along with a considerable number of our members.

We have developed with NGPR a one day training event that we delivered on four occasions during 2016 providing training to 120 energy professionals on both self-help DSR and the

formal NG schemes. As part of this development a handbook was produced that has also been made available on the NGPR web site, which has proved popular.

In addition, there have been 4 MEUC roadshows during 2016, one in Manchester, one in Leeds and two in London at which NGPR personnel presented along with a number of the leading aggregators. In addition to presenting, NGPR and the aggregators had stands at each event that allowed them to carry out informal discussions with those attending.

In addition to the above, members report increased activity in tele-sales from aggregators.

The Ofgem survey into barriers to large non-domestic demand side response is a welcome piece of work that has revealed the reasons most frequently spoken of by our members. One additional barrier a member has recently reported was an aggregator's contract term that required exclusivity between the consumer and aggregator for a period of 5 years that prevented him reaching agreement.

Consumer protection and cyber security

MEUC members already provide half-hour data to suppliers and are unlikely to consider cyber security for metered energy supplies outside the steps they already take to protect their businesses. If smart energy is to become a reality for small business and domestic consumers any concerns will have to be dealt with and practical solutions sought and the general public reassured.