



VIRIDIAN

Power & Energy

**Response by Viridian Power & Energy to
Single Electricity Market Consultation
Paper SEM-10-052**

Demand Side Vision for 2020

18 October 2010

1. Introduction

Viridian Power and Energy (VPE) welcomes the publication of this consultation paper which outlines a number of key policy options in relation to Demand Side Management (DSM), as well as the expected future benefits of each of these respective policies. This assessment is informed by international experience and associated research, as well as a qualitative assessment of different demand side policy options.

Ultimately, this paper provides for an overall ranking of a range of policy options based on a trade-off between the cost of implementation and the expected benefits, as determined under the three principal policy goals of competitiveness, security of supply and sustainability.

VPE is fully supportive of the need for a coordinated policy framework wherein the benefits of DSM measures can be realised. Such a framework should seek to efficiently deliver demand side response through relevant policy measures and the presentation of near- to long-term policy options is particularly useful in this regard. An acknowledgement of how the electricity system in Ireland will change in the coming years and the requirement for dynamic market based policies to accommodate this, is also present in the paper.

In addressing all of these issues, the resulting consultation paper is very wide in scope. The level of analysis and policy recommendations contained therein characterise this consultation paper as a high level policy document and our comments are tailored to address issues at this level. As such, a detailed response to the questions posed in paper is not considered relevant and instead our response will focus on a small number of high level issues identified with the consultation paper and in relation to moving forward with DSM policy and the more practical aspects of demand side initiatives.

In general, VPE is in agreement with both the approach and findings of the consultation paper, including many of the proposed policy recommendations. Our comments shall therefore focus on;

- The need to focus on and develop distinct DSM policy;
- DSM policy and I&C users; and,
- Clarity in relation to the timing of policy options forwarded and other market developments.

The following section of this response discussed each of these issues in turn.

2. Specific High Level Comments

Given VPE's broad agreement with the high level objectives, and characterisation of issues and policy responses, our comments are intended to address specific high level issues that relate both to the material contained in the consultation paper and other concerns we consider to be important for the RAs to consider in future DSM work.

Need to focus on Demand Side Management

One of the most notable features of the consultation paper is its reliance on concurrent workstreams to deliver DSM objectives. As a policy, it is imperative that DSM inhabits its own policy space and that the delivery of DSM objectives are not principally the responsibility of the delivery of other policies and workstreams that the RAs and Government are currently pursuing. Specifically, we note the reliance of the identified DSM policies on existing policies designed to deliver outcomes with specified targets, namely;

- Energy efficiency;
- Smart metering; and
- Electric vehicles.

It is acknowledged that as a result of achieving the objectives of these respective policies, facilitation of DSM policies may subsequently arise. However, in order for DSM policies and objectives to be achieved, something that should be seen as a worthwhile means in itself, it is imperative that DSM policies are developed and are not contingent on the delivery of other policy objectives, irrespective of the degree to which the policies or outcomes may be related.

If one considers the measures considered in the consultation paper to be of 'High Value', the majority of these are based on and/or contingent upon the continued roll-out of the separate policy initiatives of smart metering and energy efficiency. To the extent that the roll-out of these initiatives can facilitate further DSM initiatives, we are fully in agreement that these benefits should be harnessed. However, when developing a DSM policy framework we consider it important that such a framework is developed on its own merits and as such is a policy to be pursued independent of other policy developments. It is important therefore that results arising from DSM policy are not wholly contingent upon future developments in related policy areas but provide users with dynamic and transparent signals to manage their demand where possible to the benefits of the real-time functioning of the system.

Demand Side Management in the I&C Sector

Given Energia's experience with supplying customers in the I&C sector and with the participation of some I&C customers in the existing DSM schemes, (e.g. WPDRS), there are a number of issues and concerns raised by the current consultation, alongside some sensible proposals. The most sensible of which is an acknowledgement of the need for dynamic DSM initiatives to address the evolving

characteristics of the system and to deliver real benefits. As such, the existing schemes, specifically WPDRS, are considered in the consultation paper to be a barrier to the enablement of more dynamic and cost-reflective initiatives. VPE supports this position and would call for such schemes to be removed and for well designed, dynamic and cost-reflective replacement(s) to be put in place to benefit the real-time operation of the system.

Key to this change however is the need to ensure a policy continuum in relation to DSM initiatives available to I&C users. Any time lapse in implementing new schemes will erode the benefits realised by previous schemes and such benefits will be incredibly difficult to win back and ultimately destroy users' confidence in DSM initiatives. As previously noted, the credibility of a stand-alone DSM policy framework is crucial to delivery of the associated benefits. In relation to the need for a policy continuum, it is important also that new policies are not just dynamic and cost-reflective but also transparent, with the benefits of participation clear for all energy users, participants and potential participants.

In relation to future work to be undertaken, we first caution any attempts to develop specific policies in the current vacuum of knowledge in relation to I&C customer demand, characteristics of the demand, determinants of the demand and breakdown of the demand. It is therefore considered important that the RAs undertake additional data collection (or development of data collection mechanisms) and analysis of such data in relation to demand in the I&C sector. In general, the better policy can be tailored to deliver a result, the more efficient and effective any such policy is likely to be. In addition to this, the role of suppliers should not be underestimated. Given their detailed knowledge of their customers and their energy needs, suppliers may be best placed to serve the requirements of customers in this regard.

Context of Policy Recommendation and Future Developments

The final point is perhaps the most general and is somewhat related to the first point made herein. At present there is a significant degree of uncertainty in relation to the market rules, and indeed market design, that will be in force moving towards 2020. It is important that the current policy recommendations are not contingent upon the continuation of the SEM as it currently exists but are flexible and adaptable to significant market changes. As with the point previously made, it is furthermore important that DSM initiatives are similarly not contingent upon such changes and are stand-alone policies to deliver DSM objectives.

Finally, from a policy perspective and in relation to the credibility of specific DSM initiatives and policies, it is important that the timeframes indicated in the consultation document are contextualised and are cognisant of the timeframes in relation to other, perhaps related, policy workstreams. An example of this relates to smart metering, notwithstanding the comments previously made, VPE's submission to the recent Smart Metering consultation highlighted the difficulty in specifying future technology now that is not due for full national rollout for almost another decade. As part of this

consultation, and with the related time horizon in mind (factoring in associated technological developments), we called for a high technical specification for smart meters but encouraged that the debate not be stymied at this stage by such concerns which are likely to be addressed by time and technological advancement.

Therefore, in as much as smart meters will compliment DSM policy and provision should be made to harness such benefits, smart metering is a distinct policy. The development of smart metering is something that shall happen in a separate policy space and it is important that DSM policy is not disproportionately deflected into this space and away from developing specific DSM policies. In terms of 'immediate' DSM policy actions, we consider it more important for the focus to be on developing DSM policies than looking to affect a separate workstream that has its own set of objectives that will ultimately deliver benefits in relation to DSM.

3. Conclusions

VPE welcomes the publication of the RAs consultation paper and acknowledges the significant amount of work undertaken to date as part of this workstream. The scope of the paper is very wide but the acknowledgement of future changes to the composition of the electricity system on the island and the need to implement DSM policies that are dynamic and reflective of real-time benefits to the system are further welcomed.

Taking this paper as a high level policy paper, there are a number of issues and/or concerns raised by VPE that we like to see addressed in future work in this area. In addressing these, we feel that the objectives of DSM policies will be more efficiently realised and effective in outturn. Specifically, it is important that DSM policies are developed as stand-alone policies that are not reliant on the roll-out of other policy workstreams that already have predefined targets and objectives. This is not to say that such policies cannot be harnessed in the future to compliment DSM policies in place, but it is important that a DSM policy space is developed for the credibility and ultimate achievement of objectives in this area.

Secondly, before further policy development is undertaken for the I&C sector, more data and analysis should be obtained to better target DSM policies in this space and avoid trying to develop policies at a very aggregated level with relatively unknown outcomes. Similarly it is important that there is a continuum of DSM policies in place should current policies be discontinued.

Finally, in so far as DSM policies are to rely on future developments in other policy areas, the RAs and relevant policy makers must be cognisant of future changes to the SEM design and market rules around which there is a high level of uncertainty to 2020. This uncertainty and inherent risk in the market over this time horizon reinforces the call for the development of specific DSM policies that ultimately should be dynamic, flexible and transparent.