



**National RIGHT TO FUEL Campaign**  
*Campaigning for a warm dry well-lit home for all*

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**10 March 2011**

Dear Sir/Madam,

I write on behalf of the National Right to Fuel Campaign (NRFC).

The NRFC came into existence with the single aim of ensuring that every household is able to afford adequate heat, light and power. Energy is vital to life, health and well-being and not something that we can live without.

Although we are the only fuel poverty campaign that represents a membership that is entirely independent of the electricity generation and supply sector, we are nevertheless very much interested in developments in that area. It is, of course, a tough time for people with falling relative income levels and spiralling energy prices. Many - particularly those in rural areas or social housing stock - are also living in homes with poor energy performance standards. Current estimates show that upward of 5.5m million households in the UK suffer from fuel poverty or struggle to keep their homes adequately warm and nearly twice that number are living close to the fuel poverty mark. Tragically, it is expected that 25,000 people will die this winter as a result of fuel poverty.

We are delighted, therefore, to have seen the inclusion of proposals in the Electricity Market Reform Consultation ("EMR") in relation to creating market mechanisms that will support demand reduction measures. Clearly the cost of electricity is of great interest not only to our stakeholders but also across the UK given our current economic conditions. The Redpoint analysis supports the findings of several previous reports in finding that demand reduction (negawatts) is most often a more cost efficient response than creation of additional capacity (megawatts) due to: avoided network losses; speed and duration of response; avoided new infrastructure; avoided infrastructure reinforcement; avoided carbon emissions.

Although we are pleased to see that the Government's consultation indicates a high level of interest in the role of demand side response, we would nevertheless observe that there is a lack of clarity within the EMR in terms of proposals as to how these could be implemented into the electricity market framework. The NRFC would welcome an opportunity, therefore, to work with the Government and develop mechanisms for demand side response to play its full role within the electricity market. A summary of the key principles that we believe would need to be developed are set out in the schedule attached to this letter.

We look forward to hearing from you again in due course.

Yours faithfully,

[REDACTED]



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### **Schedule 1**

#### **(i) rewarding demand reduction responses:**

(a) Baseline demand reduction such as the fitting of a more efficient chiller unit, data-center, or lighting. Such long-term demand destruction is directly comparable to base load electricity generation and should, therefore, be rewarded under long-term contracts (such as a Premium FIT). The US PJM market has already demonstrated how demand response (or load response) can be integrated into a wholesale electricity market and has developed the effective baseline, measurement and verification tools that are needed to underpin such products.

(b) Active demand response such as load shifting, export from decentralized power generation, and increased demand at times of negative electricity pricing are all akin to capacity response and should be rewarded through a capacity mechanism with a baseline per kW payment to account for capital costs and response rewarded equitably compared to generation under electricity market pricing

Both these forms of response could be introduced through the EMR into the electricity market. Wherever demand response and reduction offers lower cost services compared to the equivalent response from a generation asset, the demand-side would then become the natural market response. In supporting the lowest cost response the Government would, therefore, deliver EMR at best cost value for consumers, helping to drive economic growth and competitiveness and protecting all domestic customers, in particular the most vulnerable households, from unnecessarily high electricity prices.

#### **(ii) mechanisms must be developed in time for introduction of the new market rules:**

Whilst there is currently sufficient capacity in the system this should not be used as a reason for failing to include demand response from the outset of the EMR. By including demand response and baseload reduction mechanisms from the outset, an industry will be able to develop and be in place when increasing inflexible and intermittent generation creates a greater need for such response. In developing policy demand reduction and demand response should be treated equitably compared to generation. Failure to include load response support mechanisms will mean that the EMR falls far behind other electricity trading schemes such as the US PJM market. This would be unfortunate given our reputation as a world leader in energy market reform (please see recent comments from RWE npower CEO, Volker Beckers <http://www.npowermediacentre.com/Press-Releases/RWE-npower-CEO-sees-simplicity-as-the-key-to-Energy-Market-Reform-fb8.aspx>).

#### **(iii) a framework must facilitate solutions that are anticipated but not yet required**

Negative electricity pricing is not a feature of the UK power market but it is highly likely that the future will see significant periods of negative electricity pricing. Under current arrangements the Grid operator would pay a premium to constrain off a generator. The consumer suffers badly under such a system as power consumed still attracts the (high) supply price that includes the cost of constraining off excess generation. A better solution would be to permit demand response to offer to take the excess generation at a price lower than that of the



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constraint price. The value would then be returned to the consumers whilst addressing the problem of excess generation. Whilst this is not an issue currently, places where these services could be offered such as (hot/cold) water storage on heat networks and electric vehicle charging need to be constructed now with these potentials in mind to ensure that they are able to participate in the future.

(iv) aggregation of schemes (households, businesses etc) should be promoted

Active participation in the electricity market is a 24 hour all year process. For many organizations (industry, commercial, public sector and householders) that can provide demand side participation, electricity is a second order priority). To obtain the significant value that the demand side may offer these stakeholders would need expertise and resource that they do have and cannot afford. An aggregator (for example Community Energy Direct IPS ("CED") which is piloting demand side and peak load shifting with up to 6 communities in 2011/12) can have the expertise and knowledge both to sell demand response services to grid operators and suppliers and to market their services to potential clients (or members in the case of CED). Through drawing together a number of sites and services, aggregators can mitigate risks (such as non-delivery) and provide value (through economies of scale). It is vital that the EMR facilitates an aggregation model that ensures that demand response can deliver value to the same consumers that bear both the risk and cost of the reformed electricity system.

