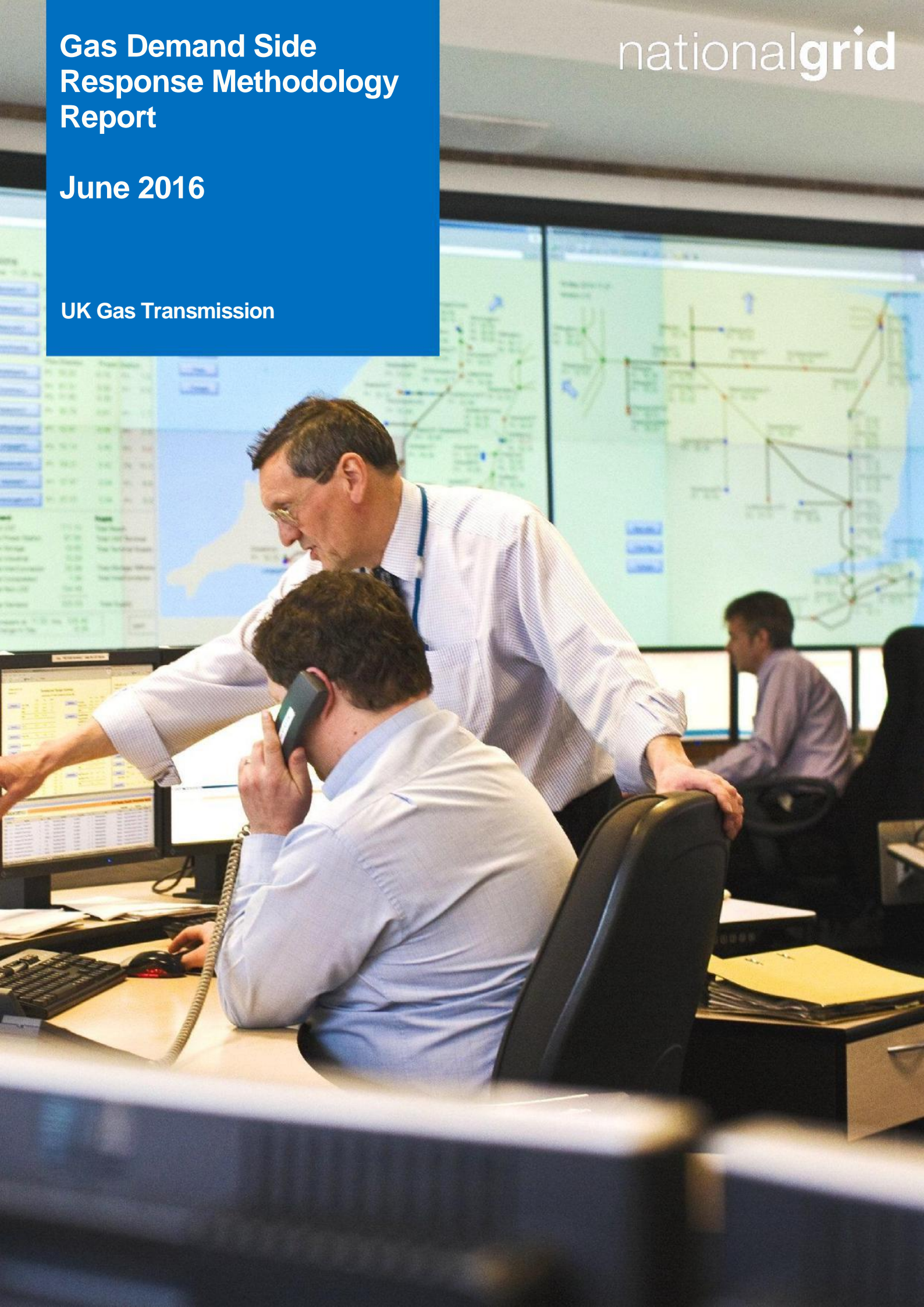


# Gas Demand Side Response Methodology Report

June 2016

UK Gas Transmission

nationalgrid



# Gas Demand Side Response Methodology Consultation Report

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## Summary

This report contains the outcome of the recent consultation undertaken in respect of the Gas Demand Side Response (DSR) Methodology. This report and the preceding consultation have been prepared in accordance with Special Condition 8I of our Gas Transporter (GT) Licence “Development and implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning”.

## Attachments

The following appendices are included with this report:

Appendix A Gas DSR Methodology - Consultation Document

Appendix B Gas DSR Methodology – Final Proposal (tracked changed for ease of reference)

Appendix C Summary of industry representations to the Gas DSR Methodology Consultation

Appendix D Copies of all consultation submissions received

## Background

The Gas DSR Methodology sets out the details of the new gas market DSR product. This new DSR product will provide an additional ‘route to market’ through which Gas Consumers can offer to turn down their consumption of gas at times of gas system stress in return for a payment. On 21<sup>st</sup> September 2015 the Authority directed National Grid NTS to implement the DSR Methodology.

We have been working with ICE Endex, the On-the-day Commodity Market (OCM) Operator to implement the necessary system changes for introduction of the DSR product. This functionality will provide gas shippers with the ability to place gas DSR offers by 1<sup>st</sup> October 2016.

During detailed solution design some financial and regulatory barriers were identified impacting implementation of some aspects of the DSR methodology which were not envisaged during development.

Having informally canvassed views from a number of stakeholders to understand the impact on their businesses, and in light of the higher than anticipated implementation costs, we recommended amendment of the gas DSR methodology which was subsequently proposed in this consultation.

A copy of the consultation document is included as Appendix A.

## Views Received

We have received 6 responses to the gas DSR Methodology Consultation; the majority of these responses (5) were representing the views of gas shippers, with another 1 response received from an end consumer group representative.

In summary, whilst highlighting some reservations the shipper representations were broadly supportive of the proposed amendments to the gas DSR methodology. The end consumer representation was not

supportive; it was felt that limitations in system design are not a sufficient reason to reduce offerings to consumers as agreed under the original gas DSR Methodology. A detailed breakdown of the consultation responses is included as Appendix C.

Further to this summary, responses received can be themed as follows:

- **Clarity on the OCM Locational Market vs. OCM DSR Locational Market**

There was unanimous agreement that the “DSR flag” could be removed from the methodology. However, respondents sought additional clarity in respect of the final solution, specifically the revised solution to implement a new OCM DSR Locational Market, compared with the previous solution to modify the current OCM Locational Market. Respondents sought clarity on the functionality of these two markets and the cost impacts in implementing a new separate OCM DSR Locational Market.

- **Removal of 7 day rolling and impacts on participation**

Shipper representations generally agreed that given the regulatory and financial barriers, the removal of this functionality was a reasonable approach. Although supportive, the following comments were received:

- Increased operational workload for shippers – reduced functionality to place 7 day rolling offers may increase the frequency that offers need to be posted on the OCM. These inefficiencies may impact the contractual terms offered to end consumers. It may also result in gas DSR offers only being posted close to the occurrence of a GDW.
- Limiting participation – one shipper response highlighted that increased operational workload may limit participation.

The end consumer representation was not supportive as it felt that limitations in system design are not a sufficient reason to reduce offerings to consumers. However, it believed that although it was unlikely that the removal of this functionality would limit participation, some members may be affected. Further explanation was not provided.

- **Proposed amendments in line with Gas DSR Methodology principles**

Shipper representations agreed that the proposed amendments aligned with the gas DSR Methodology Principles.

The end consumer representation did not believe the amendments were in line with the principles. No rationale was provided to clarify this view.

- **Clarity on removal of rolling functionality**

One shipper sought clarity on the status of sleeper bids.

- **DSR implementation issues**

Although unrelated to the gas DSR Methodology consultation a further issue was raised in respect to the operational implementation of gas DSR:

- The requirement for Shippers to hold an ICE Endex Trading Account – a concern has been raised that a DSR-eligible customer must be registered on a Shipper account that also has an

ICE Endex account for trading on the OCM. *As described below we are currently investigating this internally and will look to provide further clarification to the market in due course.*

## Conclusions and Final Proposals

In light of the industry responses received, and the underlying regulatory & financial barriers, we consider that the Gas DSR Methodology Principles would be better achieved should the proposed amendments be made to the gas DSR methodology. We therefore request that the Authority approves the attached version (Appendix B - tracked changed for ease of reference) of the Gas DSR Methodology which was subject to this consultation.

The amendments we propose to the methodology are consistent with our consultation document, namely:

- Changes to Section 3. The OCM Locational Market – removal of the reference to the DSR flag
- Changes to Section 4. The DSR Product – removal of the 7 day profile of daily offers
- Housekeeping amendments – removal of references to gas DSR framework, revisions to footnotes.

### *Further clarity on the OCM DSR Locational Market*

In addition to these changes, we note that responses to the consultation sought further clarity on the revised solution to implement a new separate OCM DSR Locational Market which wasn't envisaged in the original gas DSR methodology.

To provide clarity, the OCM Locational Market currently allows both shippers and National Grid to post and accept bids & offers ("many to many" model). The current gas DSR Methodology (pre-consultation) solution envisaged changing the OCM Locational Market such that placing bids & offers was restricted to shippers and only National Grid could accept them ("one to many" model). During detailed system design ICE Endex identified cost savings by implementing a separate OCM DSR Locational Market in comparison to the original solution of revising the OCM Locational Market. As a result the OCM Locational Market will continue under a "many to many" model.

We have revised the wording under Section 3 of the gas DSR Methodology to clarify this.

### *Reduction of offerings to end consumers*

Gas DSR has been developed such that it does not unduly preclude the emergence of commercial interruptible arrangements. The proposed amendments to the gas DSR Methodology may, if accepted, increase the frequency that offers need to be posted on OCM DSR Locational Market. However, the revised methodology provides full flexibility for shippers to tailor their individual contracts to meet customer requirements. We therefore believe that it will be end consumer needs, coupled with the commercial appetite of the shipper, which will determine the offerings available.

### *Clarity on product offerings*

One shipper sought clarity on the status of "sleeper bids". In the interest of transparency, we confirm that should the proposed amendments be accepted there will be two ways that gas DSR offers can be made on the OCM:

- Daily offers - as highlighted under Section 4.2.3 (a) of the methodology and in line with UNC TPD Section D2.2.1 (d) a 'Locational Market Transaction' or;
- A multiday product – as highlighted under Section 4.2.3 (b) of the methodology, in line with UNC TPD Section D4 – Multi Day Balancing Actions.

The rolling profile ("sleeper bids") functionality is proposed to be removed from the gas DSR Methodology.

We have revised the wording under Section 4 of the gas DSR Methodology to clarify this.

#### *Assessment against the gas DSR Methodology Principles*

As part of the consultation we assessed the proposed changes against the Gas DSR Methodology Principles as set out in our Gas Transporter licence obligation Special Condition 8l.4. In making our assessment we focused solely on the nature of the proposed change and impacts on these principles.

As set out in the consultation we believe only Special Condition 8l.4 (e), (f) and (g) are relevant. Full details of our assessment against these principles can be found within the consultation in Appendix A but in summary:

*(e) promote, and further facilitate, parties making Demand Side Response Offers to the Licensee through open and transparent market-based arrangements;*

We believe the proposed change will have a neutral impact on this principle.

*(f) not unduly preclude the emergence of commercial interruption arrangements;*

The proposed amendments will not impact the emergence of commercial interruption arrangements and therefore has a neutral impact.

*(g) minimise distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market; and*

Our proposed amendments will ensure that the products offered on the OCM DSR Locational Market will be fully aligned with other markets on the OCM. We therefore believe that the proposed amendments will better facilitate this principle.

In light of the responses received, we believe that overall the proposed changes would better achieve the gas DSR Methodology Principles.

#### **Ongoing Areas to be addressed**

Although unrelated to the gas DSR Methodology consultation we note that an issue was raised in respect to the operational implementation of gas DSR. This is in regards to shipper Gemini accounts and the requirement to hold an ICE Endex Trading Account. We are currently investigating this internally and will look to provide further clarification to the market in due course.

#### **Next Steps**

We have identified consequential UNC changes which would be necessary should the Authority approve the revised gas DSR methodology. We have already held an initial pre-modification discussion with industry to highlight the potential for future change and would look to implement these changes in good time ahead of the 1<sup>st</sup> October 2016 should the relevant decision be made by Ofgem.