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nationalgrid

Consultation on Amendments to the Gas Demand Side Response Methodology for use after a Gas Deficit Warning

UK Gas Transmission



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Executive Summary

The Demand Side Response (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 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 Gas DSR. This functionality will provide gas shippers with the ability to place gas DSR offers by 1 October 2016.

Progress remains on track to implement "core" functionality. However, during detailed solution design some financial and regulatory barriers were uncovered impacting implementation of some of the "non-core" 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 costs, we are initially recommending amendment to the gas DSR methodology to remove the "non-core" functionality. Therefore we are issuing this consultation to propose revision of the DSR Methodology.

For clarity, we would like to reassure that the "core" elements of gas DSR will be implemented by 1 October 2016 with no adverse impact on the ability of participants to place offers to "turn down" in times of system stress.

Next Steps

Responses to this consultation, alongside our final recommendation, will be forwarded to the Authority for approval. If such approval is forthcoming a UNC modification may be required to effectively implement this change.

Background

Introduction

In February 2014 OFGEM published its Final Policy Decision Consultation on the Security of Supply (SoS) Significant Code Review (SCR). As part of this, OFGEM introduced a new Special Condition (SC) 8I — 'Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning' in National Grid's NTS Transporter Licence. This required National Grid NTS to develop a methodology in consultation with industry, for assessing and accepting Demand Side Response (DSR) Offers, which in turn was approved by OFGEM in May 2015.

As directed by OFGEM, we subsequently conducted a web-based DSR trial during July 2015 and a DSR trial report was issued to OFGEM highlighting that no consequential changes were needed to the draft DSR methodology. On 21 September 2015 the Authority directed National Grid NTS to implement the DSR Methodology.

To formally implement the approved DSR methodology, we made changes to the Uniform Network Code (UNC) via Modification 0504. Approved by Ofgem in February 2016, this mandated that gas DSR would be implemented by 1 October 2016.

Further information on the development of the Gas DSR Methodology and subsequent UNC Modification can be found on the Joint Office of Gas Transporters website -

<http://www.gasgovernance.co.uk/0504>

The DSR Framework Solution

As a result of the current functionality available on the On-the-day Commodity Market (OCM) Locational Market and its historic underutilisation, discussions during gas DSR methodology development indicated that the Locational Market would be suitable to facilitate the DSR mechanism.

Subsequent discussions with ICE Endex, the OCM Operator, indicated that extending the scope of the existing Locational Market to include the new DSR Product would be more efficient and economic than building a new separate DSR platform, particularly when considering the low probability of a Gas Deficit Warning (GDW) occurring. For this reason the gas DSR solution has been centred on the OCM Locational Market with subsequent system changes required to implement the DSR methodology solution.

Implementation Status

We have been working with ICE Endex to implement the necessary system changes for Gas DSR. This functionality will provide gas shippers with the ability to place gas DSR offers by 1 October 2016.

Progress remains on track to implement “core” functionality. However, during detailed solution design ICE Endex identified financial and regulatory barriers impacting the implementation of some of the “non-core” aspects of the DSR methodology. These were not envisaged during development. These “non-core” elements centre solely on the usability of the OCM Locational Market and whilst this may impact Shippers usability of the platform, this will not directly compromise the ability to offer gas DSR. In light of the financial and regulatory barriers, we believe there is a strong case for the removal of these “non-core” elements and therefore propose to make consequential changes to the gas DSR methodology.

The DSR “Core” and “Non-Core” Functionality

In order to provide the gas DSR service, a number of new DSR features were proposed in the final methodology, these can be identified as either “core” or “non-core” features for the delivery of gas DSR.

“Core” DSR

We consider that these features are essential for the operation of gas DSR and are as follows:

- The ability of a Shipper to submit DSR offers onto the market at any point for an eligible supply point with an Annual Quantity of greater than 58,600,000 kWh;
- DSR Offers will only be accepted post a Gas Deficit Warning (GDW);
- DSR Offers will not be visible to the market until the GDW is declared;
- DSR Offers can be updated at any point up until a DSR Offer is accepted, the GDW is withdrawn or a Stage 2 Gas Deficit Emergency (GDE) is declared;
- DSR Offer prices are held in price stack order – lowest price in stack accepted first; and
- DSR Offers accepted for a gas Day in which National Grid NTS subsequently declares a GDE Stage 2 will continue to cease consuming gas until countermanding instructions are received.

“Non-Core” DSR

During the development of the gas DSR methodology we engaged shippers and large end consumers to understand what additional “non-core” DSR features could be included in the DSR methodology to improve the usability of DSR. There were two clear themes:

- Flexibility to better tailor DSR offers to manufacturing processes (i.e. better reflect shift profiles throughout the week); and
- Ability to place “sleeper bids” through the winter period, to alleviate resource requirements for consistently evaluating DSR offers.

To reflect this feedback, the DSR methodology included the following “non-core” functionality with changes required to the OCM Locational Market operated by ICE Endex to implement them:

- The ability to allow a 7 Day profile of daily offers (submit differing values for each day of the week if so required); and
- The 7 Day profile of daily offers will be replicated automatically until revised or withdrawn.

These features are identified as “non-core” as the ability for gas shippers to place DSR offers onto the OCM Locational Market is not dependent on the availability of this “non-core” functionality. However, they do provide better system functionality to gas shippers who may be placing gas DSR offers on behalf of end consumers.

The barriers to implementing “non-core”

As alluded to earlier in the document, during detailed solution design ICE Endex identified a number of financial and regulatory barriers impacting the implementation of some of the “non-core” aspects of the DSR methodology. These were not envisaged during development of the DSR methodology.

Financial barriers - ICE Endex has informed that due to the nature of the system, implementation of the 7 day profile orders (that can roll-over) would result in a substantial increase of the annual OCM Membership fees¹ in order to recover the implementation costs from OCM users. A large percentage of the forecasted increased costs would come as a result of regression testing which has to be performed as part of each major release of the ICE trading platform. In light of the significant costs in revising the ICE Endex trading platform and the low probability of a GDW occurring, the cost benefit analysis of this change has been questioned.

Regulatory barriers – Furthermore, ICE Endex has highlighted that the introduction of DSR products that open for trading more than two days before delivery would result in regulatory challenges, since it could be argued that these products are not spot products contravening current European financial legislation (i.e. MiFID).

¹ Initial assessments forecast potential 25-35% uplift to annual OCM membership fees over a 5 year period.

This Consultation

Our proposed changes to the DSR Methodology

Having informally canvassed views from a number of stakeholders to understand the impact on their businesses, and in light of the higher than anticipated costs, we believe that it is right to amend the DSR methodology to remove the “non-core” functionality. Therefore we are issuing a gas DSR methodology consultation recommending these revisions.

Additionally, it was originally understood that a ‘DSR Flag’ would be required to differentiate DSR Offers in the Locational Market. However, during detailed solution design it was identified that it would be more appropriate to create a separate Locational Market specifically for DSR offers. This has meant that the DSR Flag will no longer be required and can be removed from the gas DSR methodology.

Finally, there are some minor housekeeping and grammatical changes required to the DSR methodology.

Therefore the 3 changes we are proposing are as follows:

- Removal of the DSR Flag to differentiate DSR offers;
- Introduction of 7 day rolling profile for offers; and
- Housekeeping amendments - removal of references to the DSR framework, revisions to footnotes etc.

For ease of reference please find extracts from the gas DSR methodology and our proposed changes detailed below. A ‘tracked changes’ version of the whole DSR methodology can also be found in appendix 1.

Section 3. The OCM Locational Market

The OCM’s Locational market will be revised from a market in which Shipper OCM Market participants may both post and accept Locational bids and offers to a market where National Grid NTS is permitted to accept Locational bids and offers; and Shipper Market participants are only able to post Locational bids and offers.

[...]

~~3.4 DSR Offers will be identified by a DSR Flag~~

KEY CHANGE

We are removing the reference to a DSR Flag for DSR Offers.

Originally the Flag was needed to differentiate DSR Offers that were placed in the OCM locational market, however during detailed solution design it was identified that it would be preferable to create a separate DSR locational market. This has removed the requirement for a DSR Flag.

Q1. Do you agree that the reference to a DSR Flag can be removed from the gas DSR methodology?

Section 4. The DSR Product

4.2 Features of the DSR Product

4.2.10 Features of the daily DSR Offer product. The daily DSR Offer may be offered in the form of:

- a an offer that is input on a daily basis; or
- ~~b a 7 Day profile of daily offers (submit differing values for each day of the week if so required) the 7 day profile of daily offers will be replicate automatically until revised or withdrawn.~~

KEY CHANGE

Based upon feedback from large end consumers a 7 Day rolling profile was added to the DSR methodology. This would allow a party to submit a 7 Day offer with differing values for each day of the week, this could then be set up to roll over for every week henceforth.

The removal of “non-core” functionality may potentially result in gas shippers placing gas DSR Offers more regularly on the OCM Location Market compared to a solution containing “non-core” functionality. For example, without “non-core” functionality gas shippers may place gas DSR Offers daily on the OCM Locational Market as opposed to every 7 days under the original DSR methodology solution. When weighed up against the financial and regulatory barriers, we believe it is appropriate to remove the 7 Day rolling profile from the gas DSR methodology.

Q2. Do you agree that the 7 Day rolling profile can be removed from the gas DSR?

Compliance with the Demand Side Response Methodology Principles

The DSR Methodology was developed as a result of Gas Transporters licence obligation Special Condition 8I - “Development and implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning”.

The Licence Condition details a number of criteria we must consider when developing the DSR methodology, specifically development must be in accordance with the ‘Demand Side Response Methodology Principles’ as set out in Special Condition 8I.4. For ease of reference these principles are set out in full in appendix 4.

Given the limited nature of the proposed changes we believe only Special Condition 8I.4 (e), (f) and (g) are relevant in this instance. Following assessment, we believe the changes proposed are aligned with these principles, as outlined below;

8I.4 The Demand Side Response Methodology Principles are that the Demand Side Methodology must;

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

To encourage participation in the DSR mechanism, and reduce costs to Gas Consumers, the gas DSR methodology was developed as a simple product that, where possible, utilises existing market arrangements and trading platforms e.g. adapting / supplementing the existing UNC defined and established products available on the existing OCM platform through the Locational Market.

The removal of “non-core” functionality may potentially result in gas shippers placing gas DSR Offers more regularly on the OCM Location Market compared to a solution containing “non-core” functionality. For example, without “non-core” functionality gas shippers may place gas DSR Offers daily on the OCM Locational Market vs. every 7 days under the original DSR methodology solution. However, we believe the removal of this functionality does not impact the ability of participants to place multiple profile offers, as before it will be industry participant’s appetite to offer more complex / tailored commercial services and the contractual arrangements in place that will facilitate parties making DSR Offers. For that reason we believe the proposed change will have a neutral impact on this principle.

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

The DSR methodology has been designed as a simple “vanilla” product, allowing ‘space’ for further development and innovation of more complex / tailored commercial services by industry participants, who may want to provide a more bespoke commercial product to their contracted Gas Consumers. The proposed removal of “non-core” functionality will not impact the emergence of commercial interruption arrangements and therefore has a neutral impact on this principle.

(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

The DSR Methodology has been designed to be no more beneficial than the existing OCM products. In removing the “non-core” functionality the ability to place DSR offers on the locational market will become fully aligned with the products offered in other markets on the OCM. We therefore believe the removal of “non-core” functionality will have a positive impact on this principle.

Q3. Do you agree that the proposed amendments to the DSR methodology are in line with the DSR Methodology Principles?

The Consultation Questions

These are the key questions for which we would like to obtain your feedback for this consultation:

- Q1. Do you agree that the reference to a DSR Flag can be removed from the gas DSR methodology?
- Q2. Do you agree that the 7 Day rolling profile can be removed from the gas DSR methodology?
- Q3. Do you agree that the proposed amendments to the DSR methodology are in line with the DSR Methodology Principles?
- Q4. Do you agree with our proposed changes to the gas DSR methodology?
- Q5. Will the revisions to the methodology and removal of “non-core” functionality impact your participation in gas DSR?
- Q6. Are there any other revisions which you feel need to be made to the gas DSR methodology?
- Q7. Are there any other comments you wish to make?

Responding to this Consultation

To simplify the consultation process, we have produced a survey monkey for you to provide feedback. Please click the following link to access this:

<https://www.surveymonkey.co.uk/r/638GYB7>

We would value your responses by 14 June 2016.

If you would like to respond by other means, please use either the following email address:

Box.gas.DSR.implementation@nationalgrid.com

Or alternatively by post to:

Angharad Williams
National Grid House,
Warwick Technology Park,
Gallows Hill,
Warwick,
CV34 6DA

Next Steps

Following your feedback we will submit a report and our recommendation to OFGEM for their consideration. Dependent on the feedback received from this consultation, and views of OFGEM, we expect to make consequential changes to UNC to align with any revised gas DSR Methodology.

We will also be hosting an event in September 2016 for shippers and end consumers to provide further information about the DSR service and to help advance understanding of the product. Further details for this event will be provided via our gas DSR Implementation mailing list.

Mail Chimp communication – If you would like to subscribe to this mailing list, please contact box.gas.DSR.implementation@nationalgrid.com

Appendix 1: DSR Methodology

Introduction

This appendix sets out the current gas DSR methodology. We have included our proposed changes in the below version using tracked changes to highlight our proposed revisions to the gas DSR methodology.

DSR Framework and Methodology

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DSR Methodology

Section 1. Definitions

1.1. Definitions:

- | | | |
|---|----------------------------------|--|
| a | DSR | Demand Side Response. The reduction in an Eligible DMC's rate of gas offtake in the period following declaration of a GDW. |
| b | DSR Service | The framework within which the end to end DSR processes are operated. As set out in section 2 of this document. |
| c | DSR Offer | Each individual trade offer that may be submitted on to the OCM Platform– Locational market. |
| d | DSR Product | The arrangements by which all DSR Offers will be placed and accepted. As set out in section 4 of this document. |
| e | DSR Period | The period between the GDW being declared for the gas Day and the earlier of: (i) the revocation of the GDW; or (ii) the end of GDE Stage 1. This is the period where National Grid NTS may accept DSR Offers. |
| f | OCM Platform – Locational market | The market that DSR Offers may be submitted upon. As set out in section 3 of this DSR Methodology. |
| g | GDW | Gas Deficit Warning ref: UNC Section V5.9. |
| h | GDE | Gas Deficit Emergency ref: UNC Section Q3.2 |
| i | Firm Load Shedding (FLS) | During Stage 2 of a GDE; upon direction from the Network Emergency Coordinator (NEC), National Grid NTS and relevant Transporters |

may instruct the End Users to curtail gas offtake at specified sites. Ref: UNC Section Q3.5.

j Tick Down

A DSR Offer may be offered with a reducing down feature that reduces the volume of DSR available on the gas Day as the unaccepted Offer progresses through the Day.

k The GDE Stages

GDE Stages are defined in UNC TPD section Q3.2 and in the Network Gas Supply Emergency Classifications as provided in the National Grid NTS safety case for a Network Gas Supply Emergency

l Eligible DMC

As set out in section 5.2 of this DSR ~~Framework~~ and Methodology

Where capitalised words and phrases are used within this document, those words and phrases shall usually have the meaning provided within the Uniform Network Code (unless they are otherwise defined within the terms detailed above).

Section 2. DSR Service

2.1. The DSR service features two principle contractual arrangements:

- **For reduction in gas quantity offtaken, at relevant Site** – Shipper/Supplier to End User contractual arrangement. On behalf of the End User (in some cases through instruction by the Supplier) the Shipper will agree to place an offer onto the DSR mechanism, which reflects the agreed DSR energy quantity and price for End User's reduction in offtake from the NTS. In return the End User commits to honouring and delivering on the agreed energy quantity reduction if called to do so by the relevant Shipper following acceptance of the offer by National Grid. (Note: Requirements for this aspect of the DSR mechanism shall be defined by the Shipper, Supplier End User through their DSR Service agreement)s; and
- **For the procurement of the gas associated the DSR Offer** – Shipper to National Grid NTS contractual arrangements. Under prescribed parameters and criteria set out in this DSR ~~Framework and~~ Methodology, the Shipper will offer to sell title to gas (associated to the DSR Offer), to National Grid, in its Role as Residual Balancer.

- 2.2. The End User (in some cases through the Supplier) will work together with their registered Shipper to set-out and agree details, criteria and arrangements associated with posting the DSR Offer(s) for an Eligible site onto the OCM Platform – Locational market. DSR Offers may be placed, updated or withdrawn, at any time up to the declaration of a GDE Stage 2.
- 2.3. DSR Offers associated to the DSR Service may only be accepted by National Grid NTS and only for a gas Day in which a GDW has been declared and is in effect. DSR Offers posted onto the Locational market will be available for National Grid NTS to accept throughout the DSR Period.
- 2.4. National Grid NTS will promptly notify the OCM Market Operator that a GDW has been declared and is in effect and also when a GDW has been revoked.
- 2.5. Where a DSR Offer is accepted by National Grid NTS on the OCM Platform – Locational market;
 - 2.5.1. The Shipper will notify the End User of the requirement to reduce their notified End Of Day (EOD) offtake by an energy quantity at least equal to the DSR Offer (including any allowances for ‘Tick down’).
 - 2.5.2. The Gas Balance position, for both the Shipper and National Grid NTS, in its Residual Balancing role, registered on the UK Link system, will be adjusted to reflect the completed gas trade on the OCM Platform – Locational market.
 - 2.5.3. DSR Offers may be accepted:
 - a Solely by National Grid NTS for National Balancing purposes; and
 - b Post the declaration of a GDW up to the end of Gas Deficit Emergency Stage 1; and
 - c Where the DSR Offer meets the criteria set out in this DSR ~~Framework and~~ Methodology.

Section 3. The OCM Locational Market

The OCM’s Locational market will be revised from a market in which Shipper OCM Market participants may both post and accept Locational bids and offers to a market where National

Grid NTS is permitted to accept Locational bids and offers; and Shipper Market participants are only able to post Locational bids and offers.

- 3.1. National Grid NTS will be the only Market participant on the OCM Locational market able to accept Locational bids and Offers;
- 3.2. As Network Code signatories able to post Physical Offers, Shippers will be the only Market participants able to post Locational bids and offers ;
- 3.3. DSR Offers will be posted on to the OCM Locational Market;
- 3.4. ~~DSR Offers will be identified by a DSR Flag;~~

KEY CHANGE

We are removing the reference to a DSR Flag for DSR Offers.

Originally the Flag was needed to differentiate DSR Offers that were placed in the OCM locational market, however during detailed solution design it was identified that it would be preferable to create a separate DSR locational market. This has removed the requirement for a DSR Flag.

- 3.5. DSR Offers will not be visible on the Locational market until a GDW for a gas Day has been declared;
- 3.6. Where a DSR Offer is accepted it will be regarded as a 'Locational Market Transaction' that will be undertaken in accordance with UNC section D2.2.1 (d) a 'Locational Market Transaction'; and
- 3.7. For the avoidance of doubt, all accepted DSR Offers will be included in the system clearing processes and cash-out for the relevant gas Day.

Section 4. The DSR Product

- 4.1. The DSR Product provides 2 items:
 - a A specified energy quantity of DSR to be provided by the End User; and
 - b A Gas Trade for the equivalent DSR energy quantity provided by the Shipper.
- 4.2. Features of the DSR Product:
 - 4.2.1. The DSR Product must be associated with a specific Daily Metered Supply Point that has a registered Annual Quantity (AQ) greater than 2 million therms (DMC).

- 4.2.2. The Product must be submitted onto the OCM Platform– Locational market by a Registered User at the relevant DMC.
- 4.2.3. The Product may be offered as;
 - a a Daily product and accepted for each gas day exclusively in accordance with UNC Section D2.2.1 (d) a 'Locational Market Transaction' ; or
 - b a Multiday product undertaken in accordance with the UNC Section D4 – Multi-Day Balancing Actions ;
- 4.2.4. The DSR Product must be submitted onto the OCM Platform - Locational market as a DSR Offer, prior to the declaration of a Gas Deficit Emergency (GDE) Stage 2;
- 4.2.5. The DSR Product may be offered in separate tranches of energy quantity, which may be priced individually;
- 4.2.6. Each tranche will be submitted as a single DSR Offer;
- 4.2.7. There may be more than one DSR Offer at a specific DMC;
- 4.2.8. Each DSR Offer must be greater than 100,000 kWhs (4k therms on OCM);
- 4.2.9. Where the DSR Offer has been submitted onto the OCM Platform - Locational market for a relevant gas Day, and remain a valid offer, National Grid NTS may accept the Offer, during the DSR Period;
- 4.2.10. Features of the daily DSR Offer product. The daily DSR Offer may be offered in the form of:
 - a an offer that is input on a daily basis; or
 - ~~b a 7 Day profile of daily offers (submit differing values for each day of the week if so required) the 7 day profile of daily offers will be replicate automatically until revised or withdrawn.~~

KEY CHANGE

Based upon feedback from large end consumers a 7 Day rolling profile was added to the DSR methodology. This would allow a party to submit a 7 Day offer with differing values for each day of the week, this could then be set up to roll over for every week henceforth.

The removal of “non-core” functionality may potentially result in gas shippers placing gas DSR offers more regularly on the OCM Location Market compared to a solution containing “non-core” functionality. For example, without “non-core” functionality gas shippers may place gas DSR offers daily on the OCM Locational Market vs. every 7 days under the original DSR methodology solution. When weighed up against the financial and regulatory barriers, we believe it is appropriate to remove the 7 Day rolling profile from the gas DSR methodology.

Section 5. Eligibility

- 5.1. Only a Registered User at the Supply Points that comply with the eligibility rules specified in this DSR ~~Framework and~~ Methodology may enter offers into the DSR mechanism. In turn the DSR Methodology must satisfy the criteria and obligations set out in the GT Licence obligation SC8I.

- 5.2. An Eligible Supply Point is a 'DMC' customer as defined in the UNC Section A4.5. An Eligible DMC will be:
- a A Supply Point with a registered demand >2million therms per Annum (2M tpa);
 - b Able to offer a minimum DSR Offer energy quantity of 100,000 kWhs in any one DSR Offer Notice.
- 5.3. A Shipper may only submit a DSR Offer onto the OCM Platform – Locational market for an Eligible DMC where:
- a it is a Registered User at the Eligible DMC; and
 - b it has entered into a DSR Service Contract, with the relevant End User, prior to the relevant GDW being declared.

Section 6. DSR Participants

- 6.1. There are four/five counter parties participating in the DSR arrangement.
- 6.1.1. End User at the Eligible DMC;
 - 6.1.2. Shipper & Supplier;
 - 6.1.3. OCM Market Operator; and
 - 6.1.4. National Grid NTS
- 6.2. **End Users**
- 6.2.1. The End User, with an Eligible DMC, may choose to enter into a DSR arrangement with its registered Shipper.
- 6.3. **The Shipper/Supplier**
- 6.3.1. The Shipper/Supplier, who must be a Registered User at the Eligible DMC, is the party eligible to participate on the OCM Platform - Locational market on behalf of the relevant End User with the Eligible DMC.
- 6.4. **OCM Market Operator**
- 6.4.1. The OCM Market Operator will provide the Locational market within the OCM.
 - 6.4.2. The OCM Market Operator will facilitate offer and acceptance of DSR trades in accordance with the OCM Market Rules contract, and UNC Section Annex D1, which will reflect the DSR ~~Framework and~~ Methodology provisions.
- 6.5. **National Grid NTS**

- 6.5.1. National Grid NTS will be the sole party that may accept DSR Offers within the DSR mechanism.
- 6.5.2. National Grid NTS will only accept DSR Offers for national balancing purposes.
- 6.5.3. DSR Offers for the relevant gas Day may be accepted by National Grid NTS at any time following the declaration of a GDW for the relevant gas Day and for the duration of the DSR Period.
- 6.5.4. The acceptance of a DSR Offer by National Grid NTS does not affect, or set aside, the Network Emergency Coordinator's (NEC), National Grid NTS's or other relevant Transporters' rights or obligations when undertaking their duties under the provisions set out in 'The Gas Safety (Management) Regulations 1996 - NEC Safety Case'.

Section 7. DSR Contractual Relationship

- 7.1. Prior to posting a DSR Offer the registered Shipper must seek agreement with the relevant End User that the registered Shipper may post DSR Offers onto the OCM Platform - Locational Market, on behalf of the End User;
- 7.2. Where a DSR Offer is accepted by National Grid NTS:
 - 7.2.1. The DSR Offer acceptance will be a contractual arrangement between the Shipper and National Grid NTS through the existing OCM Market Rules and UNC contractual arrangements.

Section 8. The DSR Offer Price

- 8.1. The DSR Offer price will be a p/kWh per gas Day conforming to OCM Market Rules.
- 8.2. The derivation of the DSR Offer price will be agreed between the relevant End User and its registered Shipper/Supplier.
- 8.3. Accepted DSR Offers will be treated in a similar manner to a Market Balancing Actions (MBA) and as such all accepted DSR Offer prices will feed into the System Average Price (SAP) and System Marginal buy Price (SMPb) calculation for the relevant gas Day in accordance with existing arrangements for other MBAs.
- 8.4. Payment for the accepted DSR Offer will be paid within the same timescales prescribed for all other MBAs, and in accordance with the UNC TPD Section S;
- 8.5. The Shipper will pay the End User the agreed DSR payment for an accepted DSR Offer in the timescale agreed by the two parties

Section 9. Posting DSR Offers

- 9.1. A DSR Offer energy quantity placed on the OCM Platform – Locational Market, in respect of any DSR Offer, must be greater than 100,000 kWhs.
- 9.2. In respect of a DSR Offer submitted through the gas Day on a 'Tick Down' option, once the DSR Offer reduces below the allowed minimum quantity the DSR Offer will be withdrawn from the market for the relevant gas Day, this is due to the DSR Offer falling below the minimum bid criteria and will therefore not be a valid offer.
- 9.3. DSR Offer(s) will be for a specified offtake reduction energy quantity (kWhs) at an Eligible DMC and in the form specified by the DSR ~~Framework and~~ Methodology. Each DSR Offer(s) will relate to one individual energy quantity of reduced offtake (a tranche); for each Eligible DMC the total energy quantity of offtake reduction of all DSR Offers shall not exceed the prevailing Supply Point nominated daily offtake quantity, as set out in the prevailing Gas Flow Nomination, submitted by the relevant Shipper, for the Eligible DMC, for the relevant gas Day.
- 9.4. A DSR Offer may be posted on to the Locational market of the OCM at any point in time up to the declaration of GDE stage 2 for the gas Day, but will only be able to be accepted during the DSR Period.

Section 10. DSR Offer Acceptance Arrangements Process

- 10.1. Where a GDW has been declared National Grid NTS may accept DSR Offers on the Locational market for each Day up to the Day that the GDW is revoked, or the gas Day within which GDE Stage 1 has ended and Stage 2 is declared.
- 10.2. Following the declaration of a GDE Stage 2 National Grid NTS will not be required to accept any further DSR Offers.
- 10.3. Where Declaration of a GDE Stage 2 occurs within a gas Day all DSR Offers accepted whilst in GDE stage 1 will apply.
- 10.4. All available DSR Offers will be displayed in a price order consistent with all other OCM markets.
- 10.5. National Grid NTS will accept lowest priced offers first in stack order, making an assessment across the OCM Title, Physical, Locational Markets.

- 10.6. Where National Grid NTS accepts a DSR Offer the Shipper will be notified through existing OCM notification processes.

Section 11. Exercising The Accepted DSR Offers Process

11.1. Daily Product

Where National Grid NTS accepts the DSR Offer;

11.1.1. The relevant Shipper will notify the relevant End User of the requirement to reduce their gas offtake for the gas Day by the energy quantity specified; at the specified site, within the timescales, and arrangements prescribed in the relevant DSR Offer Notice.

11.1.2. As with all Locational Market Offers accepted on the OCM, the Shipper will notify National Grid NTS of the intent to reduce offtake at the Eligible DMC by submitting a re-nomination at the Eligible DMC Supply Meter Point, as prescribed in UNC Section D2.3 – Contract Re-nominations.

Section 12. Treatment of Accepted Offers When Entering into a GDE Stage 2

- 12.1. Where National Grid NTS has already accepted a DSR Offer for a gas Day on which National Grid NTS subsequently declares a GDE Stage 2 the accepted DSR Offer will be exercised for each Day following the Day the offer was accepted until countermanding instructions are issued by National Grid NTS i.e. instruction from National Grid NTS during the restoration stage of the GDE.

Section 13. Payment Arrangements

- 13.1. In respect of the Day, or Multiday, that the DSR Offer contract duration was accepted for, payment will be made in accordance with the accepted DSR Offer price,
- 13.2. For subsequent Days during GDE stage 2; payment at 30 day average SAP for the accepted DSR energy quantity will be made up to the point that the relevant site has been instructed to Firm Load Shedding (FLS), by National Grid NTS or such other relevant Transporter.
- 13.3. In the event that the accepted Multiday Offer contract duration runs beyond FLS; the payment will continue to be paid in accordance with the agreed DSR Offer price until the contract duration is extinguished.
- 13.4. Where the Eligible DMC is FLS the prevailing DSR payment arrangements will apply in accordance with the Ofgem Gas Significant Code Review (SCR) on Security of

Supply (SoS) UNC provisions², in which UNC section Q 6.4 - 'DSR Payments' prescribes a DSR payment, for each Day of curtailment, of 30 Day Average SAP (price set from the Day prior to entering Stage 2) multiplied by the energy quantity that was FLS.

- 13.5. As the DSR is exercised through an OCM trade, once the DSR service has been exercised, the relevant End User will be entitled to receive the relevant DSR payment until the end of the contracted duration on which the DSR Offer was accepted, irrespective of any countermand instruction from National Grid NTS that the GDW for the relevant gas Day has been repealed.

Section 14. DSR Settlement Arrangements

- 14.1. For the purposes of payment and settlement arrangements all accepted DSR Offers will be regarded as Market Balancing Actions (MBA) taken by National Grid NTS. These payments will be settled with the relevant Shipper.
- 14.2. The Shipper will be required to pass agreed payments associated with the DSR Offer to the relevant End User within their agreed settlement timescales.
- 14.3. Where National Grid NTS accepts a DSR Offer on a Day for which it later declares a GDE Stage 2; the offer acceptance shall continue to be exercised throughout GDE Stage 2 and higher emergency stages. Payments associated with accepted DSR offer energy quantities will be settled as follows:
- a For each relevant Day after the declaration of GDE stage 2, all settlement of DSR Offer energy quantities accepted prior to the declaration of entry into GDE stage 2, will NOT be executed within the settlement timescales prescribed for Market Balancing Action settlement arrangements. These DSR Offer payments will be settled in accordance with the Gas SCR SoS UNC provisions³, UNC section Q 6.4.7 - 'DSR Payments', and will be settled within the same timescales and under the funding arrangements provided for DSR Payments relating to Involuntary DSR through FLS.
 - b Accepted DSR Offers will receive DSR Payment, at the offer price multiplied by the energy quantity accepted in the DSR Mechanism, for each Day the site

² ~~UNC text to be implemented September 2015 In accordance with the Authority's direction on Gas SCR <http://www.gasgovernance.co.uk/sites/default/files/gasscrs36cdirectiondraft.pdf>~~

³ ~~UNC text to be implemented September 2015 In accordance with the Authority's direction on Gas SCR <http://www.gasgovernance.co.uk/sites/default/files/gasscrs36cdirectiondraft.pdf>~~

is curtailed, up to the day on which the site is subject to FLS. A FLS site will receive DSR Payments, for the total energy quantity of the accepted Offer (including both voluntary and involuntary DSR) in accordance with the DSR settlement arrangements prescribed in UNC section Q 6.4.7 – 'DSR Payments' (SCR SoS provisions to be introduced in September 2015).

- 14.4. Supplier Licence Condition 19D of the Gas Supply Licence and Shipper Licence Condition 15A of the Gas Shipper Licence set out the obligation for passing on Involuntary DSR payments to End Users as soon as reasonably practicable.

Section 15. Liability Arrangements

- 15.1. When submitting the DSR Offer onto the OCM Platform – Locational market the Shipper warrants that the DSR Offer accurately reflects the details agreed in the relevant DSR Offer Notice. The Shipper will be solely responsible and liable for any error or omission in the DSR Offer, when registering onto the Locational market; these liabilities will manifest themselves as clearing (cash-out) costs, Physical Re-nomination Incentive (PRI) charges and Scheduling charges.
- 15.2. Where the amount of gas offtaken for a relevant gas Day at the relevant Eligible DMC is not less than or equal to the re-nomination submitted by the Shipper, in response to the acceptance of a DSR Offer, then the Shipper is potentially exposed to clearing costs, and the End User has therefore not met its trade requirements. The End User and the registered Shipper should consider liability arrangements associated with the Shipper's exposure to such clearing costs.

Section 16. The UNC Provisions

In respect of the DSR ~~Framework and~~ Methodology the UNC will include the following provisions:

- 16.1. Prior to posting a DSR Offer onto the OCM the registered Shipper will have a record of the agreement, with the relevant End User of the relevant site, that the Shipper may post the DSR Offer(s) on behalf of the relevant End User.
- 16.2. An accepted DSR Offer will be processed and settled in accordance with Locational Market Transaction arrangements.

Appendix 2: Consultation Schedule

Task	Action	Delivery Date
DSR Consultation	Consultation Opens	17 May 16
	Consultation Closes	14 June 16
DSR Methodology Consultation Report	Submitted to Ofgem	21 June 16
	Decision from Ofgem	19 July 16

Appendix 3: FAQs

Why are you proposing a change to the methodology now?

During detailed solution design, some financial and regulatory barriers were identified to the implementation of some of the “non-core” 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 costs, we believe that amendment of the DSR methodology to remove the “non-core” functionality is justified.

Will gas DSR be implemented by 1 October 2016?

Yes. “Core” DSR functionality will be in place from this date. Accordingly from 1 October 2016 gas shippers will have the ability to place DSR offers on the OCM Locational Market.

Will the proposed changes to the methodology affect the ability to place gas DSR offers on the OCM?

No. Should the proposed changes be implemented, gas shippers will still have the ability to place gas DSR offers from the 1 October 2016. However, the removal of “non-core” functionality would mean that gas shippers may have to place gas DSR Offers more regularly on the OCM Location Market compared to a solution containing “non-core” functionality. For example without “non-core” functionality gas shippers may place gas DSR Offers daily on the OCM Locational Market as opposed to every 7 days under the original DSR methodology solution.

Will the proposed changes to the methodology affect National Grid NTS compliance with the gas DSR licence obligations?

No. We believe the proposed changes are consistent with the obligations in our Gas Transporters licence obligation Special Condition 8I “Development and implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning”.

Specifically, we believe the proposed amendments to the DSR methodology have a neutral or positive impact to the Demand Side Response Methodology Principles set out in 8I.4:

If OFGEM approves the changes to the gas DSR methodology when will the amendments come into effect?

Following your feedback we will submit a report to OFGEM for their consideration. Dependent on the feedback received from this consultation, and views of OFGEM, we expect to make consequential changes to UNC to align with any revised gas DSR methodology. We would expect any UNC modification to be agreed by the end of August allowing the revised gas DSR methodology to be in place on the 1 October 2016.

Are there any plans to subsequently implement the “non-core” elements of gas DSR methodology?

Our recommendation, as set out in consultation, is for “non-core” functionality to be removed from the gas DSR methodology. It is our expectation that this functionality would not be implemented at a future date unless a later amendment was made to the DSR methodology.

Appendix 4: DSR Methodology Principles

Introduction

The DSR Methodology was developed as a result of Gas Transporters licence obligation Special Condition 8I - “Development and implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning”. The Licence Condition details a number of criteria we must consider when developing the DSR methodology, specifically development must be in accordance with the ‘Demand Side Response Methodology Principles’ as set out in Special Condition 8I.4. These principles are listed as follows:

8I.4 The Demand Side Response Methodology Principles are that the Demand Side Methodology must:

- (a) ensure that any party making a Demand Side Response Offer is a party to the Uniform Network Code;
- (b) set out the criteria for determining that particular “DMC” Supply Point Components are “DMC” Supply Point Components in respect of which a party may not make Demand Side Response Offers;
- (c) allow the Licensee to accept Demand Side Response Offers only where a Gas Deficit Warning is in place or within Stage 1 of a Gas Deficit Emergency;
- (d) demonstrate compatibility with existing market arrangements by setting out the manner in which any Demand Side Response Offers accepted by the Licensee are to be treated as Eligible Balancing Actions and included in the System Clearing Contract, System Marginal Buy Price and System Marginal Sell Price;
- (e) promote, and further facilitate, parties making Demand Side Response Offers to the Licensee through open and transparent market-based arrangements;
- (f) not unduly preclude the emergence of commercial interruption arrangements;
- (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
- (h) ensure that Demand Side Response is procured in a manner consistent with the Licensee’s duties under the Act and, in particular, the Licensee’s obligation to operate the pipe-line system to which this licence relates in an efficient, economic and co-ordinated manner.

Appendix 5: Consultation Feedback

We are always looking to do things better and would therefore welcome feedback on the manner in which this consultation has been conducted. If you would like to provide feedback on this consultation process, please click the below link to access our feedback questionnaire:

<https://www.surveymonkey.co.uk/r/665D3C7>