

## Demand Side Response Methodology (DSR) for Use after a Gas Deficit Warning (GDW)

### Initial Draft Strawman Option

#### Version 0.1

### **Background**

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 proposed a revision to National Grid's NTS Transporters Licence of a new Special Condition 8I – 'Development and Implementation of a Demand Side Response (DSR) Methodology for use after a Gas Deficit Warning', would, if introduced in its currently proposed form require National Grid NTS to:

1. develop a methodology (the "Demand Side Response Methodology"), in consultation with the industry, for assessing and accepting Demand Side Response Offers, with a draft to be submitted to the Authority no later than March 2015;
2. where Directed by the Authority to do so, run a trial of the approved draft Demand Side Response Methodology;
3. following such a trial, submit to the Authority a report on the outcome of the trial and a final version of the Demand Side Response Methodology, amended to address issues identified by the Licensee during the trial; and
4. where Directed by the Authority to do so, implement the Demand Side Response Methodology.

This Strawman looks to describe a Demand Side Response product, and the Methodology for utilisation and compensation for the provision of this product, which meets all of the above requirements.

### **The Demand Side Response Methodology**

#### **1. The need for Demand Side Response**

Following several industry engagement sessions, over the last three months, meeting with approximately 60 Large Industrial End Consumers, Shippers and Suppliers, this draft strawman proposal seeks to provide a high level, initial view, of the DSR methodology that supports industry discussions to date.

The DSR methodology seeks to provide an additional 'route to market' through which End Users (via their shipper) can signal their willingness to make available additional DSR volume, i.e. DSR volumes which may otherwise not be offered through existing market mechanisms. Encouraging as much DSR volume to come forward, post a Gas Deficit Warning (GDW) and prior to the end of GDE stage 1 may, in some circumstances, provide sufficient additional system balancing volumes to avoid the network entering into stage 2 of a Gas Deficit Emergency (GDE), and therefore may

help all affected parties avoid the high costs and risks associated with an escalation into the later stages of a GDE.

## 2. **Why**

Ofgem's SCR process identified that the gas market would benefit from large consumers reducing demand voluntarily ahead of an emergency. However during the same process stakeholders expressed doubts that a market for voluntary interruption would emerge of its own accord. During this process a number of stakeholders also suggested the development of a centralised mechanism for DSR. Ofgem has therefore decided to proceed with the development of a centralised mechanism for DSR run by National Grid Gas (NGG). It is envisaged that establishing this mechanism will serve to 'kick-start' the market for commercial interruption in the medium to long term and thereby increase competition for the provision of DSR.

## 3. **Who**

Only sites that comply with the eligibility rules specified in the DSR Methodology may enter the DSR mechanism process. In turn the DSR methodology must satisfy the criteria and obligations set out in the GT Licence obligation.

## 4. **What**

[DSR offer(s) will be for a specified offtake reduction (kWh) at an eligible site and in the form specified by the DSR Methodology. The offer(s) may be in the form of one or more separate volumes of reduced offtake (a tranche) not exceeding the maximum offtake for the day, and will be treated as a Market Balancing Action (MBA)].

## 5. **How**

The End Consumer will work together with their Shipper who will place the associated DSR Offer(s) onto a new DSR trade platform. DSR Offers may be placed, and updated, on the DSR trade platform at any time from a year ahead [upto X]. DSR Offers may be accepted by National Grid NTS only and only after declaration of a Gas Deficit Warning (GDW) for the relevant Gas Day.

## 6. **When**

DSR Offers may be accepted by National Grid NTS at any point following the publication by NGG of a GDW for the relevant Gas Day and up to the end of GDE Stage 1. Where the DSR is accepted, a shipper notified reduction in offtake at the relevant site (a Tranche) is required within the timescales prescribed in the DSR Methodology.

[Once a DSR offer has been accepted by National Grid NTS the accepted volume of DSR will continue to be curtailed for each Gas Day up to National Grid instruction being received to recommence flowing at the relevant offtake or the start of the Gas Day following the Day on which the relevant Gas Deficit emergency is declared over].

The acceptance of a DSR Offers by National Grid does not affect, or set aside, the Network Emergency Coordinator's (NEC) or National Grid's rights or obligations when undertaking its duties under the provisions set out in 'The Gas Safety (Management) Regulations 1996 - NEC Safety Case'.

## 7. Offer

The DSR Offer will comprise of:

- a) x [Price p/kWh] to be agreed by / between End Consumer and Shipper
- b) Volume (kWh)
- c) Required lead time
- d) Tick down
- e) Can it be partially accepted or not
- f) Location (meter ID)
- g) [Shipper ID] *note: OCM anonymous*

## 8. DSR Acceptance Fee settlement arrangements

[For the avoidance of doubt, DSR Offers can only be accepted after the declaration of a GDW up to the end of GDE Stage 1, but the offer acceptance may continue to be exercised through GDE Stage 2. Payments associated with accepted DSR offer volumes will be settled as follows:]

- a) [For all days pre stage 2; payment of the accepted DSR offer will be regarded as a Market Balancing Action (MBA) taken by National Grid NTS. Settlement of such fees will be undertaken in accordance with normal operation settlement arrangements for MBAs. These payments will be settled with the relevant Shipper; and the Shipper will be obligated to settle payment with the relevant End Consumer within [X days] of receipt payment from NG NTS.
- b) For each relevant Day, following declaration that the GDE has entered stage 2, all settlement of fees for accepted DSR Offer volumes relating utilised on a Day within Stage 2 will NOT be executed within the settlement timescales prescribed for the relevant Energy Balancing invoices. These DSR Offer fees will be settled in accordance with the Gas SCR SoS legal text section 6.4 – 'DSR Payments', and will be settled with the same timescales and under the funding arrangements provided for DSR Payments relating to Firm Load Shedding (FLS) (Involuntary DSR) ].
- c) [Accepted DSR Offers will receive DSR Payment, at the offer price for the volume accepted, for each Day they are curtailed, unless they are within the area of a Local Distribution Zone (LDZ) that is subject to Network Isolation (in stage 3).
- d) Where Network Isolation has occurred, Exercised/FLS services relating to sites within the affected area will receive DSR payments for Day 1 of the Network Isolation only. DSR Payments will continue to be made for each Day where a relevant site (that is curtailed) is NOT within the area of an LDZ that is subject to Network Isolation.

**9. Liabilities**

[Liabilities associated with non-delivery of the contractual obligations, both in respect of DSR Offer acceptance arrangements and the Shipper/End- Consumer DSR Offer contractual obligations. - *To discussed and developed by the Workgroup.*]

**10. Feed into Daily Cashout Price**

All accepted DSR trades will feed into the calculation of System Clearing prices (both SMPs and SAP) in accordance with existing arrangements for other MBAs.

**11. Volumes not eligible for DSR Offer prices**

- a) In the event that the Total System enters GDE Stage 2 any DSR Offers that are made available to National Grid Transmission but not accepted, and whose relevant offtake is subsequently involuntarily curtailed through Firm Load Shedding (FLS), will be paid in accordance with the DSR settlement arrangements prescribed in [the Gas SCR SoS legal text section 6.4 – ‘DSR Payments’.]
- b) Any volumes of offtake, which do not relate to accepted DSR offers, and are involuntarily curtailed through FLS, in GDE Stage 2, will be paid in accordance with the DSR settlement arrangements prescribed in [the Gas SCR SoS legal text section 6.4 – ‘DSR Payments’].

In respect of 11.a & 11.b the Gas SCR SoS legal text section 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 Volume that was Firm Load Shed (involuntarily interrupted).