

Duration of ‘Call Off’ for DSR Offers – Options

Background

As a result of the recent publication of the National Grid Transmission proposed Licence obligation Special Condition 8I – ‘Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning’. National Grid Transmission has held a number of sessions with End User groups and following these initiated a series of Development Workgroups under Modification Proposal 0504 – ‘Development of a Demand Side response Methodology’. Through these workgroups the requirements and views of all relevant industry parties can be considered within the development of the DSR methodology.

Initial 0504 workgroups identified a number of key principles that need to be agreed in order to make significant headway, in respect of delivering a DSR methodology for consideration by Ofgem, in the timescales prescribed in the NGT Licence. At the forefront of these discussions is reaching agreement on the appropriate design of the DSR Product, in particular the duration upon which the DSR Offer would be exercised, the duration of call off. The workgroup considered that it would be helpful if this issue was raised and debated with a wider audience of End Users to understand their views on what may or may not consider would be a reasonable approach.

Three DSR Offer duration of call off options were proposed:

- Option 1 - Daily Offer
- Option 2 - Multi-Day Offer
- Option 3 - Off till instructed back on by National Grid

Arrangements applicable to all 3 Options

- DSR contract between Shipper/Supplier and End User to be agreed and in place prior to a Gas Deficit Warning (GDW) being declared.
- Eligible DSR Offers must be registered on the OCM DSR market prior to the declaration of the GDW. All DSR Offers will be frozen post declaration of the GDW.
- DSR Offers will only be accepted by NG following declaration of a GDW
- NG will not accept any Market Balancing Actions (including DSR Offers) post Stage 2 of a Gas Deficit Emergency (GDE). NG ceases to participate in the OCM (and DSR mechanism) post GDE Stage 1.

Option 1 – Daily DSR Offer

DSR Offer posted (pre GDW), accepted and exercised on a daily basis.

- The DSR payment for the DSR Offer, and requirement to reduce, only applies to a day where the DSR Offer is accepted and exercised, ;
- The DSR Offer, whether accepted on the day prior or not, will continue to be available on the DSR mechanism for every day following declaration of a GDW, at the same price and volume, upto the end of stage 1;

- Where NG accepts the DSR Offer on a subsequent days during this period , the DSR Offer will be exercised and DSR payment made for each day individually, if NG doesn't accept on following day or days the site will not be required to reduce or receive a DSR payment for the relevant day, but the DSR Offer remains available to NG.
- For the avoidance of doubt: At the end of GDE Stage 1 NG ceases to participate in the DSR Mechanism. NG will therefore not accept, exercise or initiate any payments associated with DSR Offers post GDE stage 1. In Stage 2 GDE the End User will receive DSR payments only when the End User is curtailed through Firm Load Shed (FLS).

Note: As the exercising of the Option 1 DSR product does not continue into GDE Stage 2 the issues associated with the duration of DSR payment at the DSR Offer price are not relevant.

Pro and Cons

Pros

- Broadly aligned to other OCM platforms

Cons

- **End User** - Uncertainty over commitment to provide volume of DSR Offer for each day between GDW and end of Stage 1. Uncertainty around whether or not the DSR Offer will be exercised on each subsequent day leading to challenges associated with planning and gauging how many days likely to be required to reduce.
- **NG** - Uncertainty associated with resumption of Offtake on D+1, day after DSR trade accepted, particularly in respect of managing system
- **NG** - Uncertainty associated with potential increases in demand when entering into stage 2 GDE.
- Increased workload to process offers on a daily basis through three parties (e.g. End User, Shipper/Suppliers, NG).

Option 2 - Multi-Day DSR Offer

DSR Offer posted, accepted and exercised for a specified number of days, not greater than 7 days (existing multi-day OCM functionality)

- Multi day DSR Offer will offer the same volume and price for each day of a specified duration of days (≤ 7 days)
- Upon accepting a Multi-Day Offer, NG may, where required, adjust the price for each of the days within the Multi-Day Offer, based on the probability of the Volume helping the system through the duration of the multi day trade, this may mean that day 1 is set at a higher price than the DSR Offer price for day 7, but the overall payment for the total Multiday trade will equal the customers DSR Offer price x total multiday volume. This is undertaken to ensure that the accepted prices over the days is appropriately reflected in the Cashout prices for each day.

- Where the GDE continues into Stage 2 and the Multi-Day trade duration is not completed; the accepted Multi-Day DSR price will continue to be paid until the Multi-Day trade has been fully exercised. These arrangements are consistent with existing UNC Multi-Day Trading arrangements.

Note: As the exercising of the Option 2 DSR product is undertaken under existing UNC Contractual arrangement the issues associated with the duration of DSR payment at DSR Offer price post GDE stage 2 are not relevant. The Payments for Multi-Day trades will be settled at the accepted DSR price for the duration of the trade regardless of whether this extends into GDE stage 2.

Pro and Cons

Pros

- Utilising Existing Functionality available on the OCM post GDW
- Aligned with other OCM platforms

Cons

- Uncertainty associated with offtake reduction increasing on the day after the Multi-Day trade has lapsed.
- Uncertainty associated with multi-day trade lapsing prior to end of GDE Stage 1, issues associate placing another DSR Offer on to market.
- Potential complexity in managing increased volumes and various multi-day Durations and probability calculations

Option 3 – ‘Off until Instructed On’ DSR Offer

DSR Offer is posted, accepted and exercised for the day, and continues to be exercised for every subsequent day, up to NG instruction that trade contract is extinguished and site may resume offtake levels associated with delivering against their DSR Offer. NG will provide communication to the relevant shipper on D-1 by [17:00] that the site may resume flows at the start of the following gas day

As the exercising of the Option 3 product will continue into GDE Stage 2 the ‘off till on’ product is impacted by the duration of payment at the DSR offer price post GDE Stage 2 issue. In respect of the duration of payment there two obvious approaches to consider:

1. DSR payment settled at DSR Offer price upto Firm Load Shedding (FLS), then where the relevant site is subject to FLS the accepted DSR Offer volume along with the rest of the sites volume will be settled at 30 day average SAP in-line with prevailing FLS arrangements.
2. DSR Payment settled at accepted DSR Offer price for accepted DSR volume offered for every-day in which the DSR Offer is exercised by NG, (subject to GDE Stage 3

arrangements), the remainder of the sites load that is subject to FLS will be settled at 30 day average SAP in line with prevailing FLS arrangements.

Option 3 - 1. – Settled at DSR Offer Price upto FLS

Pros

- Certainty and clarity that DSR volume made available to NG for duration that the system is in stress.
- Simple communication between NG, Shipper/Supplier and End Consumer to turn down until further notice.
- May limit distortion and unintended consequences with existing market arrangements (in line with obligation set out in NG licence obligation SC8I principle 3).
- Introduces the DSR mechanism as an alternative route to market that does not compromise the development of any other DSR commercial arrangement or existing route to market (in line with obligation set out in NG licence obligation SC8I principle 6).

Cons

- **User** -Uncertainty as to when End User may resume offtake
- **User** - Uncertainty as to what Offer price to submit to reflect VoLL.

Option 3 -2. Settled at DSR Offer price for duration of curtailment

Pros

- Certainty and clarity that DSR volume made available to NG for duration that the system is in stress.
- Simple communication between NG, Shipper/Supplier and End Consumer to turn down until further notice.
- Could be viewed as appropriate way of treating DSR Offer as eligible Balancing Actions (in line with NG licence obligation SC8I principle 4)
- May encourage consumer to participate, facilitating a route to market (in line with NG licence obligation SC8I principle 5)

Cons

- May cause distortion and unintended consequences on existing Market arrangements (conflicting with NG licence obligation SC8I principle 3)
- Introduces the DSR mechanism as an alternative route to market that may compromise the development of any other DSR commercial arrangement or existing route to market (conflicting with NG licence obligation SC8I principle 6)
- **User** -Uncertainty as to when End User may resume offtake
- **User** - Uncertainty as to what Offer price to submit to reflect VoLL.