

UNC Demand Side Response Minutes
Wednesday 02 July 2014
31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Andrew McDermott	(AMc)	British Ceramic Confederation
Audrey Nugent	(AN)	Chemical Industries Association
Charles Ruffell	(CR)	RWE
Chris Warner	(CW)	National Grid Distribution
Claire Thorneycroft	(CT)	National Grid NTS
Eddie Proffitt	(EP)	MEUC
Gareth Davies	(GD)	Statoil UK Ltd
Jamie Unwin*	(JU)	Grow How
Julie Cox	(JC)	Energy UK
Nick Wye*	(NW)	Waters Wye Associates Limited
Richard Fairholme	(RF)	E.ON UK
Ritchard Hewitt	(RH)	National Grid NTS
Stephen Jarvis	(SJ)	Ofgem

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dsr/020714>

1. Welcome and Introductions

LJ welcomed delegates to the first Demand Side Response (DSR) Workgroup Meeting. He introduced the purpose of the meeting, explained the role of the Joint Office and welcomed delegates to provide any feedback or concerns to the Joint Office at any time.

LJ explained that Modification [0504 - Development of a Demand Side Response Methodology for use after a Gas Deficit Warning](#) had been raised to engage parties and provide an open and transparent platform for discussions.

2. DSR Background**2.1. Development background**

SJ provided a presentation on [Ofgem's Gas Significant Code Review \(SCR\) and the background on the Demand Side Response \(DSR\) mechanism](#). The presentation confirmed Ofgem had published their statutory consultation on the SCR on 16 June 2014. This confirmed their final policy decision on the cash-out reform and their decision to proceed developing a DSR mechanism. The consultation on the Transporter licence changes closes on 16 July 2014.

SJ explained the rationale for proceeding with the development of a DSR mechanism and provided the DSR licence condition principles with key aims and the timelines for development, consultation and implementation.

CR enquired about the market test and the strategy for approving the methodology. He anticipated the industry approving the methodology, followed by a trial before a final decision is made on any required changes.

JC enquired about the arrangements and party interactions between consumers, shippers/suppliers, transporters and whether this should form part of the methodology or

arrangements that sit beside the methodology. SJ believed this was open to debate, he suggested there could be contractual arrangements referenced but no principles had been set on the interactions, this was very much for the Workgroup to consider. CT suggested that a standard could be referenced in the methodology. RH suggested at some point a sub-group may want to consider a standardised contract if this was deemed necessary as part of the development of the DSR mechanism.

EP enquired if there were any limitations. SR confirmed there were no limitations on National Grid NTS beyond the licence conditions however there are some principles outlined. These did not preclude option fees. The Workgroup briefly discussed whether options fees would be cost effective. It was agreed the Workgroup would need to consider this further. LJ confirmed option fees will be considered and reassured EP that this was very much in scope for discussion. LJ confirmed all options will be considered on evidence basis and asked parties to prepare and provide evidence to aid and support discussions.

2.2. Broad structure of the proposed DSR

CT provided a presentation on [Modification 0504 and the development of a DSR methodology](#).

She explained that without the DSR methodology Daily Read, sites subject to Firm Load Shedding at GDE Stage 2 will receive a DSR payment based on the unit price which is equal to 30 day average SAP prices (set on the Day preceding entering into Stage 2 GDE per kWh).

CT illustrated the timescales involved with developing the DSR methodology and explained the intention to use survey monkey to assist assessment of the likely level of participation within the Daily Read market.

The Workgroup discussed how the trial may be operated, how National Grid NTS would engage participants and how they would measure the likely response to an emergency. CT envisaged a scenario being created for the trial and asking participants to respond to the scenario. The design of the trial will need to be considered. GD enquired how Ofgem are going to assess the success of the trial.

CT explained there might be an option to copy an existing platform and have a familiar process that satisfies a number of users. She confirmed National Grid NTS will be considering the cost benefits of the platform/process and how the eight principles outlined by Ofgem will be met.

RH was keen to have something that is familiar to participants that were simple to understand and does not require complex user guides.

EP enquired how the survey would be conducted and how parties will be invited to participate. CT explained that National Grid will attempt to communicate with DMC consumers. EP suggested National Grid interact with Xoserve to ensure all organisations are involved who have emergency contacts registered.

CT summarised the key principles for development and highlighted that the strawman considered the principles outlined. CT also summarised the key features and highlighted that key messages had been derived from feedback received whilst engaging consumers.

The presentation listed the key features of the mechanism to allow participants to offer to reduce usage. CT acknowledged this does not at the moment include option fees. She recognised that some participants are “super firm” and will not be able to offer a reduced usage, whereas others may be able to offer a tranche of reduced usage and others may be able to offer a complete turn down. Parties will not be forced to participate but the option will be made as attractive as possible to encourage parties to reduce usage.

RF enquired if parties are already operating in this manner and if so, whether a mechanism was required to manage reduced usage. RH explained that the strawman presently operates like a gas trade.

The Workgroup discussed the strawman and the desire to use existing processes, the use of tranches to reduce gas usage, the consideration of reduced gas usage on a case by case basis and parties being paid for responding.

JC enquired about the use of uniform processes and the use of the “tick down rate” used within the OCM. National Grid NTS would consider this as part of the design and if the “tick down rate” can be set to consider hour-by-hour turn down over varying periods ie. Over 3 hours, 5 hours, 8 hours etc.

Action 0701: National Grid NTS to consider the design on the OCM “tick down rate” process.

GE asked National Grid NTS to clarify if the DSR mechanism was to be used only for GDE Stage 1. It was clarified this would be a post GDW process. RH explained the criteria for processing to Stage 2 to ensure system safety.

EP asked about the capping of bids and whether expensive bids would be accepted to avoid Stage 2. The Workgroup considered the bid process, the stacking of bids and that bids need to be considered for the efficient and economical management of the system. It was considered that if a high bid was placed it may not be accepted unless it would economically resolve the need to move to Stage 2. RH suggested parties would be encouraged to provide competitive bids however no capping would be set.

The Post Emergency Claim (PEC) process was explained by RH. CT explained that payments would be pro-rated depending on the longevity, where the whole element was not utilised.

EP enquired about the features considered under [Modification 0435 - Arrangements to better secure firm gas supplies for GB customers](#), and the tender process. CT explained that Modification 0435 moved through several discussions, involving an Ofgem consultation and there were some issues with running the process as a tender process. EP challenged that there is a route to the market utilising the existing system without developing a new commercial product. RH suggested the development of a commercial interruptible market should not be prevented. SJ believed that this product was quite different to developing a commercial interruptible market, which is addressed within the set of principals.

CT summarised the key areas of the initial DSR methodology, to highlight the areas that need to be focused on during Workgroup discussions and asked parties to provide feedback on any areas that are missing.

The Workgroup discussed the management of payments and the cashout price, the SCR arrangements and the application of payments pre-Stage 2 and when Stage 2 is enacted. CT confirmed that the Workgroup would need to consider the management of payments and the rates that would be applied. The cost benefit analysis would also need to be considered.

Action 0702: National Grid NTS to consider the management of payments if a bid is taken when Stage 2 is enacted, and build the strawman to reflect what parties get paid (i.e Stage 2 or current bid).

3. Key Issues

CT presented the principle key issues identified and require addressing by the industry. The intention will be to program these issues at future Workgroup meetings.

AN enquired about the volumetrics. CT explained the volumetrics would need to be established for the trial and to ensure viability of the mechanism. The Workgroup discussed the order of the issues and how best to programme these.

The Joint Office agreed to work with National Grid NTS to produce a schedule of meetings to be included within the minutes. This will be listed and updated within the diary planning section.

3.1. Initial Representations

None raised

4. Turn Down to / Turn Down by

CT summarised the differences between a Turn Down To and Turn Down By product, focusing on the pros and cons. She explained the need to fully understand the issues and requirements of Customers, Shippers and NGG.

EP was concerned about the mandatory requirement to place bids and the ability to predict Turn Down By.

The Workgroup discussed the complexity of consumer usage and their knowledge of required baselines. Where variable production processes exist AM believed this may become difficult.

The Workgroup believed there is a choice to place a “sleeper bid”. It was understood that consumers would need to consider usage and may need to manage their usage more dynamically to participate.

The process was considered to enable parties who can assist with a turn down usage to participate. Parties will not be obliged to provide a bid if this would adversely affect their commercial business. If parties want to be involved and choose to do so there will be a process for parties to become involved earlier where a situation warrants a turn down.

GD suggested the use of an ANS message to highlight when a GDW was declared. JC believed there is already a service for GDW declarations and parties only need to register to receive notifications.

EP enquired about the withdrawal of bids and the impact this would have to managing the service where “sleeper bids” have been placed but cannot be enacted for commercial reasons.

RH explained the need to create a product for enough people to be encouraged to use it for it to be of value to the rest of the community and protect others from being affected by Stage 2.

AM suggested that more views could be sought on the Turn Down To and Turn Down By product options via survey monkey to ascertain any concerns.

EP expressed concern about users also wanting to Turn Up to the maximum level allowed and, if there is a Turn Down bid in place, whether this constrains a Turn Up.

SJ queried if the instantaneous gas flow rate would need to be known.

Having considered the Turn Down To product LJ challenged if it was possible in practice to offer a Turn Down To product. RH believed that the Turn Down To might not meet the principle requirements. JC explained that the market needs real time cashout information to utilise a Turn Down To product. EP explained most consumers would not monitor within day cashout prices. RH believed the daily cashout prices are in the prevailing view. The Workgroup believed following further discussion that the Turn Down To product may not be a viable product because of the needs for near-real time cashout and visibility of the current balancing position. It was agreed that the methodology would be developed on a Turn Down By basis

AM explained that for consumers with continuous (super firm) usage there would be limited options for flat demand profiles. However it's not so clear-cut how the products would work for consumers who do not have a flat profile.

5. Next Steps

National Grid NTS requested delegates review the initial strawman and provide comments to allow this to be updated and maintained as a living document.

AM asked for a summary for the different eventualities to be included within the strawman for bidding, i.e. bids offered but not accepted.

RH agreed to outline the process steps providing a high level overview of the bidding process.

Workgroup to consider Option Fees and understand the issues raised for Modification 0435.

Future meeting invites to be circulated via the Joint Office circulation lists: Meeting Notices and GCF.

6. Terms of Reference

It was agreed to amend the published [TOR](#) to include Shipper/Supplier impacts.

7. Any Other Business

None.

8. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Wednesday 13 August 2014	31 Homer Road, Solihull B91 3LT	(I6) Option Fees (KA1&I2) Eligibility rules (KA3) Timescales of Service -process flow- interactions between three parties (KA5) DSR Offer posting and Acceptance processes
10:30 Wednesday 10 September 2014	31 Homer Road, Solihull, B91 3LT	(KA4 & I3) Contractual Arrangements (KA6) Service Fees – pricing offer (K9) Payment, Cost, liabilities for failing to interrupt (KA8) Payment and settlement arrangements – including timescale between three parties
10:30 Monday 13 October 2014	31 Homer Road, Solihull, B91 3LT	(I4) DSR Trial (I5) OCM Platform
10:30 Tuesday 11 November 2014	31 Homer Road, Solihull, B91 3LT	(KA7) DSR offer price feed into Cashout Review Draft Methodology and Business Rules
10:30 Wednesday 10 December 2014	31 Homer Road, Solihull, B91 3LT	Outstanding issues Review and sign off Workgroup Report

Key Issues identified by the Industry

I1	DSR product	Turn down to / Turn down by
I2	Eligibility rules	Gas Fired Generation eligibility and interaction with Electricity Market Reform
I3	Contractual Relationships	Define contractual arrangements between Shipper/Supplier and end consumers facilitating transactions, contractual relationships, liabilities and how contracts should be reported on under existing regulatory requirements
I4	DSR Trial	Define trial success criteria, volumetrics will need to be established to ensure viability of mechanism
I5	OCM platform	Need to understand the costs associated with OCM development and implementation
I6	Option Fees	

Resolution of these Issues must be compliant with the key principles set out the DSR Licence Condition

Key Areas of the DSR Methodology

KA1.	Eligibility rules for Participation in the DSR Tender Process
KA2.	Definition of DSR product and service
KA3.	Timescales of the DSR service
KA4.	DSR Process - contractual arrangements
KA5.	DSR Mechanism submission process and operational arrangements: <ul style="list-style-type: none"> - DSR Offer posting process - DSR Offer acceptance process
KA6.	DSR Service Fees
KA7.	DSR offer price feed into daily Cashout price
KA8.	Payment and Settlement arrangements; <ul style="list-style-type: none"> - Pre Stage 2 - Post Stage 2 (including settlement process for DSR offers not that were not accepted through the DSR mechanism)
KA9.	Payments, Costs, Expenses and Liabilities for failing to interrupt

Development of key areas must comply with key principles set out the DSR Licence Condition

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0701	02/07/14	2.2	National Grid NTS to consider the design on the OCM "tick down rate" process.	National Grid NTS (CT)	Pending
0702	02/07/14	2.2	National Grid NTS to consider the management of payments if a bid is taken when Stage 2 in enacted, and build the strawman to reflect what parties get paid (i.e Stage 2 or current bid).	National Grid NTS (CT)	Pending