

UNC Demand Side Response Minutes
Wednesday 10 September 2014
31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Audrey Nugent	(AN)	Chemical Industries Association
Charles Ruffell	(CR)	RWE
Claire Thorneywork	(CT)	National Grid NTS
Eddie Proffitt	(EP)	MEUC
Gareth Davies	(GD)	Statoil UK Ltd
Graham Jack	(GJ)	Centrica
John Costa	(JCo)	EDF Energy
Julie Cox	(JC)	Energy UK
Laura Mason	(LM)	National Grid NTS
Michael McGowan	(MM)	Ibstock Brick Ltd)
Nick Wye	(NW)	Waterswye
Stephen Jarvis	(SJ)	Ofgem

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dsr/100914>

1. Review of Minutes and Actions**1.1. Minutes**

Approved

1.2. Actions

0801: National Grid NTS to consider whether to revise the wording of the survey to help understand what interest is likely to be in the proposed Exercise only DSR mechanism, and what influence Option fees may have on volumes being offered by participants.

Update: CT confirmed that the survey had been updated with an options question. **Complete**

0802: Parties to consider the three possible Day, Multi-day or Off until instructed on products further and provide National Grid NTS with a view on any preference.

Update: Andrew McDermott had confirmed via email he has had some feedback, given the limited opportunity for a DSR response, there was no clear preference on the three options, however support was cited for the option that maximised participation of others. EP also provided an email response. It later agreed during discussions that the 'Single Day' product appeared to be the solution that best met the requirements. See item 2.2. **Complete**

2. Modification 0504 - Development of a Demand Side Response Methodology for use after a Gas Deficit Warning

CT provided a [presentation](#) for the proceedings of Workgroup 3.

2.1. Volumetrics

LM provided a [volumetrics presentation](#) to illustrate the potential volumes associated with DSR.

The workgroup considered the lead-time, the application of a minimum bid size and specifying a tick down rates. The group were concerned that where the DSR was offered with a tick down specified, the offer may fall below the minimum bid size and may not be accepted by National Grid.

RH noted that the minimum bid size was agreed, by the industry, as part of the development and introduction of the OCM in 1999. A minimum 100,000 kWhs bid size was determined to be an appropriate level of volume that may ensure that the industry would not be exposed to small volume bids setting cashout. RH noted that the System Management Principles Statement (SMPS) states that in respect of Balancing Actions the minimum volume National Grid NTS would expect to have a visible effect on system balancing is 3 GWWhs.

The workgroup concluded that minimum bid size of 100,000 kWhs may sit outside the remit of this group, and therefore the industry may wish to consider this issue separately.

Action 0901: National Grid NTS to provide an explanation of how the tick down rate will work in the context of the prevailing minimum bid size of 100,000 kWhs on both the OCM and within the UNC provisions.

LM explained the basis upon which the Volumetrics analysis was based. She highlighted that the base values of Volume of sites likely to be eligible to participate in DSR Mechanism was calculated based on 50% of the Aggregate SOQs for all eligible sites. The workgroup queried the assumption that 50% of SOQs was the appropriate base level.

JC suggested that the workgroup could look at actual statistics of peak DM demand and the percentage utilisation of the total SOQ, to ascertain any averages. He suggested that deriving the base volume in this manner may provide a more reflective view of the potential base volumes that may be available for use in the DSR service.

Action 0902: National Grid NTS to provide further volumetrics based on actual DM demand, the percentage utilisation of the SOQ and a summary of averages.

2.2. Payment and Settlement Arrangements

(Product Design, Payment Duration terms and Settlement timescales)

CT provided a summary on the three options considered, single day, multi-day, duration (off until on).

The workgroup discussed the accrual of payments from the point the bid is accepted and the period of payments.

GJ asked about the determined quantities within the duration option, he noted that the volume would be apparent on the first day of the run down, however he challenged how the volume of DSR would be determined based on what would have been consumed on subsequent days. JC also asked about the nomination process following turn down.

RH explained that volume and price is fixed once the bid is accepted and the shipper will be exposed to cash-out during the accepted bid if the customer fails to turn down. EP asked about the ability to change or withdraw bids. CT clarified that every DM site currently has the capability to place a new OCM bid, but once a bid has been accepted it can't be changed or withdrawn.

The workgroup considered the benefits and disadvantages of each of the options. RH enquired if there appeared to be a preference for a Single Day option based on the discussions and concerns.

The workgroup noted that an offer should not be able to be placed based on a volume, which may take the site higher than the SOQ.

SJ questioned whether the single day option would address this issue?

NW enquired about erroneous nominations and what the penalty would be for over nominating i.e. would this be the SMP buy price?

RH explained that with the 'multi day' and 'duration product' an agreed estimation would need to be made on potential gas usage, however the 'single day' product would allow the shipper/customer submitted nomination to be used as the intended gas usage.

The rationale for a 'multi day' product was discussed. It was recognised that this product was intended to account for sites that need longer to turn back on. The workgroup considered whether a 'single day' product could be used over a period of days to replicate a 'multi day' product.

SJ was keen to understand if customers would utilise a 'single day' and if in reality it wouldn't work particularly if all users needed more than one day to turn back on.

CT explained that the ceramics industry, who are "super firm", would wish to encourage the development of a product which incentivises as many sites with available demand response to offer DSR volume as this may protect more critical industry loads from being curtailed.

The workgroup discussed how each product would operate when entering into Stage 2. CT noted that at the end of stage 1 National Grid is required to suspend its participation in the Market, and suspend taking Market Balancing Actions, this includes accepting any DSR offers. As a result the 'Single Day' product would only be accepted, and exercised, prior to entry into stage 2.

CT explained that, in accordance with UNC provisions, once stage Stage 2 has been declared Daily Read sites will be Firm Load Shed (FLS) by largest (by volume of gas consumed) site first. However if there is enough turn down within or before Stage 1 then Stage 2 may be avoided.

CT highlighted that the workgroup may wish to consider the consequences of sites, which had been exercised in Stage 1, coming back on in Stage 2, with the larger sites, potentially critical loads, being Firm Load Shed first.

The workgroup considered if a 'single day' product was adopted should the process allow exercised sites to come back on during Stage 2. It was suggested that sites should not be allowed back on once Stage 2 has been declared. JC was concerned this would discourage participation if once a site has turned down and enters Stage 2 the sites already turned down have to stay off.

NW suggested the workgroup should discount what happens in Stage 2 as this will happen regardless and is outside of any market mechanism. He believed the workgroup ought to consider this as a separate process and concentrate how the process should function pre Stage 2.

It was agreed that the 'Single Day' product appeared to be the solution that best met the requirements and minimises the issues related to "day 2" bid delivery confirmation questions, but further consideration would be required to discourage / avoid a process that allows inflated nominations on subsequent days, effectively to cover their turndown amount. The workgroup considered the restriction / ability not to be able to change a bid on day two but also control inflated gas nominations.

LJ asked National Grid NTS to illustrate as the system operator how the system would cope with a user inflating nominations and how it might work through the system clearing processes.

RH clarified the securities in place to incentivise users not to over inflate nominations higher than the physical ability (SOQ) to take off gas. He explained that there are shipper incentives and obligations for nominations to accurately reflect use of the system. He also highlighted that there are regulatory powers and statutory instruments to discourage abusing of market position.

The workgroup discussed the incentives currently in place for erroneous nominations and the ability to report to Ofgem to investigate inflated gas nominations.

Action 0903: Ofgem to consider and provide a view on the enforcement of accurate gas nominations.

RH explained the operation and system capability as it exists now. The workgroup agreed they needed to consider how the current market operates and how the 'Single Day' product could work within existing parameters.

The workgroup considered the settlement and payment timescales for pre/post entry into Stage 2. JC enquired about Stage 2 being enacted half way through the gas day and how settlement would be managed. CT clarified this would be processed as a within-day Market Balancing Action.

CT summarised the DSR service liabilities.

2.3. Contractual Arrangements / Service Fees – pricing offers

JC provided a presentation on the [Supplier/Shipper contractual issues](#).

JC anticipated that Shippers would expect to be the contractual interface between DM customers and the DSR bidding platform and the use of fixed volume, price and lead-time.

The workgroup considered the contractual arrangements and where the obligations should lie; the components of the services fee; the semantics of the DSR Service contract, and whether National Grid NTS are in a position to develop suggested standardised contract terms.

It was considered that National Grid should not directly fund incurred risk premium / administration fees. It was suggested that there should be some cost limitations in the administration fees and that bid value should be separate.

In respect of the Gas price component of the DSR service fee, concerns were raised regarding the level of Shipper exposure to risks associated with applying the option of a 30-day SAP price as the Gas Price component of the DSR service fee.

JC challenged that the price for gas shouldn't be 30 day average SAP and suggested that gas price agreed through a shipper/ end User contract may be a more appropriate approach to setting the Gas price component of the DSR Service fee. EP was concerned that if it was agreed that the price must be a contractually agreed then the 30 Day Price SAP price cannot come into it.

RH provided an example of how the pricing could work. For example; Customer had £1 per therm gas supply contract; customer offers to run down with an exercise request price of £1.50; Shipper will then bid £2.50 on the market, Shipper will get paid £2.50; Shipper pays the customer £1.50 and keeps the £1 to cover the costs they would ordinarily incur.

NW highlighted most customers will have a supply contract linked to D+1 price.

The value is the premium the customer wants for turning down. National Grid agreed to update the DSR Service fee explanation in line with the discussions.

2.4. Payment, Cost, liabilities for failing to deliver

CT summarised the DSR service liabilities.

The workgroup discussed the 'Single Day' product and, once a Gas Deficit Warning (GDW) is declared, bids freeze. EP reiterated his request for customers to have the right to amend or withdraw a bid in the next day. It was clarified that there is the ability available now through existing processes (nomination process).

SJ asked about the system flexibility and the impact of weekends and bank holidays. The ability to set bids for different days of the week was discussed.

National Grid agreed to consider the rules around fixing bids, seven day bidding, the ability to change bids after GDW is declared and freezing bids at the beginning of the gas day. There was a preference for the ability to bid for 7 days ahead with fixed days.

3. Any Other Business

3.1. Survey

Following consideration of the volumetrics the workgroup considered the survey questions. The workgroup was keen to receive a copy of the survey questions to consider the wording.

The Workgroup also considered the timing of the survey and obtaining views to assist with product design decisions.

The workgroup discussed the use of sleeping bids for any length of period, the option of placing 5-day bids, and daily bids with the option of repeating.

SJ suggested National Grid NTS supplies the current draft of the survey to the workgroup and let the workgroup consider the best approach following review.

3.2. Option Fees

CT provided a sample question on Option Fees. EP wished to ensure when the Workgroup Report is developed that the report captures the views he has expressed in relation to the inclusion of Option fees.

4. Next Steps

DST expression of interest Feedback Survey to be published to End Consumers

The main agenda items for the next meeting will be:

- Product Outline (product specification, standard contract terms)
- Draft Business Rules
- (14) DSR Trial
- (15) OCM Platform
- Eligibility Rules
- Expression of Interest Survey

5. Any Other Business

Any further views/issues/concerns please contact:

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6. 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 Monday 13 October 2014	31 Homer Road, Solihull, B91 3LT	Product Outline (product specification, standard contract terms) Draft Business Rules (14) DSR Trial (15) OCM Platform Eligibility Rules Expression of Interest Survey
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

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0801	13/08/14	2.2	National Grid NTS to consider whether to revise the wording of the survey to help understand what interest is likely to be in the proposed Exercise only DSR mechanism, and what influence Option fees may have on volumes being offered by participants.	National Grid NTS (CT)	Complete
0802	13/08/14	2.4	Parties to consider the three possible Day, Multi-day or Off until instructed on products further and provide National Grid NTS with a view on any preference.	All	Complete
0901	10/09/14	2.1.	National Grid NTS to provide an explanation of how the tick down rate will work in the context of the prevailing minimum bid size of 100,000 kWhs on both the OCM and within the UNC provisions.	National Grid NTS (CT)	Pending
0902	10/09/14	2.1.	National Grid NTS to provide further volumetrics based on actual DM demand, the percentage utilisation of the SOQ and a summary of averages.	National Grid NTS (CT)	Pending
0903	10/09/14	2.2.	Ofgem to consider and provide a view on the enforcement of accurate gas nominations.	Ofgem (SJ)	Pending

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