

| Final Modification Report | At what stage is this document in the process? |
|---|--|
| <h1>0591S:</h1> <h2>DSR – Removal of 7 day rolling profile functionality</h2> | <div style="display: flex; flex-direction: column; align-items: flex-end;"> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 5px; width: 100px; text-align: center;">01 Modification</div> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 5px; width: 100px; text-align: center;">02 Workgroup Report</div> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 5px; width: 100px; text-align: center;">03 Draft Modification Report</div> <div style="border: 1px solid #ccc; padding: 5px; width: 100px; text-align: center;">04 Final Modification Report</div> </div> |
| <p>Purpose of Modification:</p> <p>This proposal seeks to remove the ‘non-core’ elements of the gas Demand Side Response (DSR) Methodology from the UNC including 7 Day profile of daily offers. This is a consequential modification in light of Ofgem’s decision to approve amendments to the gas DSR methodology.</p> | |
|  | Panel consideration is due on 18 August 2016 |
|  | High Impact: None |
|  | Medium Impact: Shippers |
|  | Low Impact: DN’s, Suppliers, Consumers, National Grid NTS and the Market Operator |

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| Timeline | |  01926 65 4850 |
| Modification timetable: | | |
| Draft Modification Report issued for consultation | 21 July 2016 | |
| Consultation Close-out for representations | 11 August 2016 | |
| Final Modification Report available for Panel | 12 August 2016 | |
| Modification Panel decision | 18 August 2016 | |

1 Summary

What

The UNC is no longer aligned with the gas DSR Methodology which was approved by Ofgem and amended on 07 July 2016.

Why

In February 2015 Ofgem approved UNC Modification 0504, which introduced Gas DSR and will become effective on 01 October 2016. During detailed solution design financial and regulatory barriers were identified impacting the implementation of some of the functionality of the DSR methodology. These were not envisaged during development. These elements of functionality 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. National Grid NTS proposed the removal of these elements of functionality from the gas DSR methodology and conducted an industry consultation in June 2016.

In light of the industry consultation report, Ofgem subsequently directed a change to the gas DSR methodology on 07 July 2016 and these revised arrangements now need to be reflected in Code.

How

This modification implements the approved amendments to the DSR Methodology, removing paragraphs TPD Section D, 5.1.2 (b) and TPD Annex D-1, 3.2 (h).

These changes reflect that the 7 day rolling profile and DSR flag are no longer included in the DSR Methodology.

2 Governance

Justification for Self-Governance

This modification is proposed as self-governance as the changes are a consequence of Ofgem's decision to approve amendments to the gas DSR methodology. These changes are unlikely to have a material effect on consumers, competition in the shipping, transportation or supply of gas conveyed through pipes, the Uniform Network Code governance procedures or the network code modification procedures.

Shippers

The amendments to the Methodology may impact the usability of the On-the-day Commodity Market (OCM) platform for placing DSR bids.

End Consumers

The approved amendments to the gas DSR Methodology may increase the frequency that offers need to be posted by shippers on OCM DSR Locational Market. However, the revised methodology provides full flexibility for Shippers to tailor their individual contracts to meet customer requirements. National Grid NTS therefore believes that it will be end consumer needs, coupled with the commercial appetite of the Shipper, which will determine the offerings available.

OCM Operator

There will be a positive impact on the OCM operator because it negates the potential cost and regulatory barriers highlighted during the system build for DSR.

Fast Track Self-Governance

The modification is not subject to Fast Track Self-Governance as the changes proposed are not correcting an error or factual change.

Requested Next Steps

This modification should:

- be subject to self-governance
- proceed to Consultation.

This modification should be subject to self-governance because it is enacting a consequential change to the gas DSR Methodology which has been approved by Ofgem, and therefore does not require further authorisation.

This modification should proceed to Consultation because the gas DSR Methodology amendments have already undergone an industry Consultation, therefore no further assessment is required by a Workgroup.

On 02 June 2016 a Transmission Workgroup presentation was made highlighting the need for a potential modification as a result of the industry Consultation, and subject to Ofgem's decision.

In order to ensure these changes are in Code by 01 October 2016 the Proposer National Grid NTS is therefore recommending this modification should go straight to Consultation.

3 Why Change?

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 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 DSR Offers. On 21 September 2015 the Authority directed National Grid NTS to implement the DSR Methodology.

Modification 0504 implemented the approved DSR methodology in the UNC by 01 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>.

During detailed solution design ICE Endex (the OCM Locational Market – the 'host' – provider) identified financial and regulatory barriers impacting the implementation of some of the functionality of the DSR methodology. These were not envisaged during development. These elements of functionality 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, National Grid NTS proposed the removal of these elements of functionality from the gas DSR Methodology and therefore conducted an industry Consultation which closed in June 2016.

Details of this consultation are available on the National Grid website -

<http://www2.nationalgrid.com/UK/Industry-information/Gas-transmission-system-operations/Balancing/Gas-DSR/>.

National Grid NTS received 6 responses to the gas DSR Methodology Consultation; the majority of these responses (5) were representing the views of gas Shippers, with another 1 response received from an end consumer group representative.

In summary, whilst highlighting some reservations the Shipper representations were broadly supportive of the proposed amendments to the gas DSR methodology. The end consumer representation was not supportive; it was felt that limitations in system design are not a sufficient reason to reduce offerings to consumers as agreed under the original gas DSR Methodology.

In light of the industry Consultation report, Ofgem subsequently approved amendments to the gas DSR methodology on 07 July 2016. This approval can be seen at this [link](#).

Purpose of this Proposal

This modification is proposing consequential changes to align UNC with the revised gas DSR methodology. The proposed changes are in line with those stipulated in the gas DSR Methodology consultation.

Justification for Consultation

This modification should proceed to Consultation because the gas DSR Methodology amendments have already undergone an industry Consultation, therefore no further assessment is required by a Workgroup.

On 02 June 2016 a Transmission Workgroup presentation was made highlighting the need for a potential modification as a result of the industry Consultation, and subject to Ofgem's decision.

In order to ensure these changes are in code by 01 October 2016 the Proposer National Grid NTS is therefore recommending this modification should go straight to Consultation.

4 Code Specific Matters

Reference Documents

Ofgem approval letter to implement amendments to the gas DSR Methodology:

https://www.ofgem.gov.uk/system/files/docs/2016/07/dsr_amended_methodology_decision_letter.pdf

Gas DSR Methodology Consultation:

<http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=8589935216>

The amended DSR Methodology has been published on the Joint Office website.

Knowledge/Skills

Not applicable.

5 Solution

The revised gas DSR methodology removes the ability to post a 7 day profile of daily offers; it also removes references to a 'DSR flag'. As such we propose to make the corresponding changes to UNC. This requires changes to the following sections of UNC:

- Removal of the 7 day rolling profile – deletion of references in UNC TPD Section D
- Removal of "DSR flag" in the locational market – deletion of references in UNC TPD Annex D-1

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There is no impact on any other industry change.

Consumer Impacts

Shippers

The amendments to the Methodology may impact the usability of the On-the-day Commodity Market (OCM) platform for placing DSR bids.

End Consumers

The approved amendments to the gas DSR Methodology may increase the frequency that offers need to be posted by Shippers on OCM DSR Locational Market. However, the revised methodology provides full flexibility for Shippers to tailor their individual contracts to meet customer requirements. National Grid NTS therefore believes that it will be end consumer needs, coupled with the commercial appetite of the Shipper, which will determine the offerings available.

OCM Operator

There will be a positive impact on the OCM operator because it negates the potential cost and regulatory barriers highlighted during the system build for DSR.

Cross Code Impacts

There is no impact on any other energy code.

EU Code Impacts

There is no impact on any EU energy code.

Central Systems Impacts

This is a minor consequential change and has no impact on central systems (Gemini). This modification reduces the system changes required to the OCM as a result of UNC Modification 0504.

User Pays

| User Pays | |
|--|---|
| Classification of the modification as User Pays, or not, and the justification for such classification. | No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification. |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. | N/A |

| | |
|--|-----|
| Proposed charge(s) for application of User Pays charges to Shippers. | N/A |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. | N/A |

7 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|--|-------------------|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | Positive |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | None |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | None |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

c) Efficient discharge of the licensee's obligations

This objective is furthered by the modification because without the proposed changes to UNC, there will be a disparity between Licence and Code.

SC8I requires National Grid NTS to, where directed by the Authority, implement the Demand Side Response Methodology. The content of the methodology is therefore to be included in UNC in order to fulfil the Licence.

As the changes to the methodology have been consulted on and approved by Ofgem, these changes now need to be included in the Code to ensure this requirement in the Licence can be implemented efficiently.

8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised, with an effective date of 01 October 2016. There are no implementation costs applicable to the modification.

9 Legal Text

Legal Text has been provided by National Grid NTS and is included below. The UNC Modification Panel has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

The proposed removal of section D 5.1.2 (b) removes (1) the indication (“flag”) as to whether a Market Offer is a DSR Market Offer and (2) the option for DSR offers to be submitted on with a 7 Day profile of daily offers which could replicate automatically until revised or withdrawn.

The removal of section 3.2 (h) (Market Transactions) of Annex D-1 is a consequential amendment which reflects element (1) of the amendment to section D.5.1.2.

Text

UNC TPD Section D: 5 VOLUNTARY DEMAND SIDE RESPONSE

5.1 DSR Market Offers and Acceptance

Delete existing paragraph 5.1.2(b) and renumber paragraphs (c) through to (i) accordingly.

5.1.2 Subject always to paragraph 5.3.2,

[...]

~~(b) Trading Participants shall indicate for any Market Offer to effect a Locational Market Transaction that is posted on the Trading System whether such Market Offer is a DSR Market Offer and whether such Market Offer is to be automatically rolled over by the Trading System Operator on a weekly basis until such time as it is accepted;~~

Annex D-1: 3 Market Transactions

Delete existing paragraph 3.2(h).

3.2 A Market Offer to effect a Physical Market Transaction must indicate:

[...]

~~(h) in the case of a Market Offer to effect a Locational Market Transaction, if the Market Offer is a DSR Market Offer.~~

10 Consultation

Panel invited representations from interested parties on 21 July 2016. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 4 representations received implementation was unanimously supported.

Representations were received from the following parties:

| Organisation | Response | Relevant Objectives | Key Points |
|------------------------|----------|---------------------|--|
| British Gas Trading | Support | c - positive | <ul style="list-style-type: none"> The modification seeks to align the UNC with the recently revised DSR Methodology, the revision having been sanctioned by Ofgem. Proposal essentially completes the change process. Self-governance is appropriate since the proposed changes will not have a material impact on transporters, shippers, suppliers or consumers. Implementation should be in line with the self-governance framework. Although proposed changes to the DSR methodology were formally consulted on, we would welcome the Panel's views on whether the governance of the UNC change process is, to some extent, being subordinated. |
| National Grid NTS | Support | c - positive | <ul style="list-style-type: none"> National Grid is obligated to implement the gas DSR Methodology through revisions to UNC, therefore these approved changes now need to be reflected in UNC. This modification should be subject to self-governance because it is enacting a consequential change to the gas DSR Methodology which has been approved by Ofgem, and therefore does not require further authorisation. The gas DSR Methodology has an effective date of 01 October 2016, so an approval decision made after the August Panel would result in this Modification not being implemented until after the Gas Demand Side Response go live date. |
| RWE Supply and Trading | Support | c - positive | <ul style="list-style-type: none"> We agree that these changes need to be made so that the UNC is consistent with the latest version of the Ofgem-approved DSR Methodology. Should be subject to self-governance as it introduces consequential changes that arise following revision of the DSR Methodology. Implementation should be as soon as practicable under the self-governance framework to give the market certainty of the DSR arrangements ahead of 01 |

| | | | |
|-----|---------|--------------|--|
| | | | <p>October.</p> <ul style="list-style-type: none"> • No costs envisaged. Notes that the removal of the 7-day rolling profile facility will significantly increase the frequency with which shippers will need to post DSR Offers and may have an adverse effect on the uptake of the product. |
| SGN | Support | c - positive | <ul style="list-style-type: none"> • Agree that this modification is necessary to ensure that changes to the gas DSR Methodology, as directed by Ofgem, are reflected in the UNC. • Agree it should be subject to self-governance arrangements. • Implementation preferable at the earliest practicable opportunity to provide certainty as to DSR Methodology arrangements prior to 01 October 2016. |

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this Consultation (including late submissions) are published in full alongside this Report, and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

12 Recommendations