

Stage 01: Modification

0504:

Development of a Demand Side Response Methodology for use after a Gas Deficit Warning

At what stage is this document in the process?



This Proposal seeks to introduce a mechanism that facilitates a 'route to market' through which Large End Users may offer Demand Side Response (DSR) during times where a such response may help to reduce the likelihood, or severity, of a Gas Deficit Emergency (GDE).

This Proposal has been raised following the publication of Ofgem's draft revision to National Grid PLC's Gas Transporters Licence, which seeks to introduce a new Special Condition; Special Condition 8I – 'Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning'.(SC 8I is due to be submitted for statutory consultation in June 2014)



The Proposer recommends that this modification should be:

- assessed and developed by a Workgroup



High Impact:

Shipper/Supplier, Large Industrial End Consumers, National Grid NTS, The Market Operator



Medium Impact:

DNOs



Low Impact:

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About this document:

This modification will be presented by the proposer to the panel on 19 June 2014.

The panel will consider the proposer's recommendation and agree whether this modification should be:

- Referred to a workgroup for assessment.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

This Proposal is NOT a self-governance Modification Proposal as if implemented:

- There may be a material impact on Transporters, Shippers, Suppliers and End Consumers in respect of any settlement costs associated with any DSR volume offered
- Additionally, as the Proposal seeks to introduce a methodology which may help reduce the likelihood of entering a Gas Deficit Emergency it will have a material effect on matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies

Is this a Fast Track Self-Governance Modification?

As the proposal does NOT meet the self governance criteria it also does not meet the fast track self-governance criteria.

Why Change?

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 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 proposal is intended to fulfil all four steps.

Solution

Due to the complexity and duration of the development, at this early stage this proposal sets out only a process to be followed to enable National Grid Transmission to comply with the proposed new Licence condition for the development of the Methodology and associated mechanism.

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It is proposed that:

- a Workgroup be formed to develop and review options and produce recommendations for the design of a DSR Methodology and associated DSR Mechanism, which may satisfy the obligations stated in Special Condition 8I, whilst meeting the expectations of relevant industry parties and demonstrating a clear improvement to the current regime aligned with the Relevant Objectives.
- a draft consultation report detailing the proposed draft DSR Methodology and supporting mechanism is subject to a consultation process with UNC Parties, relevant End Consumers, and any other interested parties.
- a subsequent consultation report, along with all industry consultation responses, issued to Ofgem for consideration. (Submit report to Ofgem no later than the 1 March 2015).
- if the draft DSR Methodology included within the consultation report is approved by the Authority, National Grid Transmission will be then run a low cost trial of the relevant arrangements.
- following the above trial National Grid Transmission will produce and submit a report on the trial to the Authority in line with the obligations set out in the proposed Licence condition.

Following the trial, and pending a further Authority direction, the remainder of the usual Modification Process, prescribed by the Modification Rules, will be followed to implement the DSR Methodology and supporting mechanism.

Relevant Objectives

This proposal has been raised as a result of the Ofgem's proposed revision to National Grid Transmission Gas Transporters Licence, furthering objective 'c.) development of this facilitate the efficient discharge of the Licensee's obligations' by completing this development in time to enable implementation of any new arrangements within the timeframe currently proposed in the draft licence conditions.

If implemented the proposed DSR Methodology and supporting mechanism may facilitate additional Demand Side Response (DSR), from End Users, prior to entering into a Gas Deficit Emergency, furthering objective 'a.) efficient and economic operation of the pipe-line system'. The proposed changes may also further objective 'b.) coordinated, efficient and economic operation of the combined pipe-line system ..' as the proposed DSR Methodology seeks to enable DSR from System Points within the LDZs as well as System Points directly connected to the NTS

The current draft Special Condition 8I requires that accepted DSR offer prices feed into System Clearing Prices on the day, therefore we believe that this proposal furthers objective 'e.) by providing a reasonable economic incentive for relevant suppliers'.

Implementation

It is not yet clear what the precise implementation timescales, associated with this proposal, will be. We anticipate that the implementation date and timescale will be clarified as part of the Proposal's Workgroup development.

At present there is no specified implementation date for this Modification Proposal, the current proposed Special Condition 8I does not specify an implementation date for the DSR Methodology, although Ofgem have indicated that a Winter 2016 -17 delivery would be preferred.

Further information on the costs associated with this proposal will be developed by the workgroup.

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2 Why Change?

Development of a DSR Methodology

During Ofgem's Security of Supply (SoS) Significant Code Review (SCR) it was identified that in the build up to a Gas Deficit Emergency (GDE) there may be merit in developing a mechanism, which may further facilitate additional DSR volume, allowing end users to signal their willingness to come off the system i.e. that which may otherwise not be offered through existing market mechanisms. It was noted that encouraging as much DSR volume off the system, 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 entering into a GDE stage 2 emergency, and therefore may help the industry avoid the high costs and risks associated with an escalation into a Gas Deficit Emergency.

The outcome of Ofgem's SoS SCR workshop discussions concluded that there would be merit in further development of a DSR mechanism. Ofgem considered that further development could be achieved outside of the SoS SCR process and therefore proposed that a DSR methodology continued to be developed through placing a new licence obligation on National Grid NTS.

As part of the SCR SoS Final Policy Decision Document (12 February 2014) Ofgem included a consultation on the Draft Licence Obligation 'Special Condition 8I – Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning'. (SC 8I is due to be submitted for statutory consultation in June 2014).

We have therefore raised this proposal in order to allow ourselves and the industry time to complete development of new arrangements in time to enable implementation of any such new arrangements within the timeframe currently proposed in the draft licence conditions.

Modifications that relate to the SCR

We note that under prevailing Modification Rules '*a modification may not be proposed if the subject matter relates to the SCR, unless Ofgem directs otherwise*', and recognise that this Proposal could be considered to address 'subject matter' that relates to the SoS SCR. We believe that on this occasion the raising of this Proposal and its progress through the UNC modification route is appropriate. This Proposal has been raised as a result of the publication of a proposed new license obligation by Ofgem. Within its Final Policy Decision document Ofgem advocates the development of a DSR methodology outside of the SCR proposes and in consultation with the industry. We also note that the development stage of the SoS SCR process has concluded and Ofgem are in the final stages of seeking to submit the final SoS SCR legal text for Statutory Consultation and approval by the Authority.

The proposed license obligation requires National Grid Transmission to run a full industry consultation on a draft DSR Methodology, and to subsequently submit a report to Ofgem, by March 2015.

We believe that achieving the timescales prescribed within the proposed new License condition, whilst ensuring that the most appropriate design for the DSR methodology, which best meets industry wide criteria, as well as considering UNC changes required to facilitate a DSR mechanism, are best placed being developed with industry participation as part of the UNC modification and governance processes.

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3 Solution

Development of a Demand Side Response (DSR) methodology through the Workgroup

This proposal seeks to put in place a process to develop the DSR Methodology, and supporting DSR mechanism, through a UNC Workgroup such that the process is open and transparent.

This proposal will evolve from;

Describing the process through which the Methodology and supporting mechanism will be developed; to

Providing details of the proposed Methodology, mechanism and trial arrangements.

Whilst ensuring that such developments satisfy the currently proposed new GT Licence condition 8I through to implementation of the Methodology into the UNC.

It is proposed that:

- a Workgroup be formed to develop the potential options and produce recommendations for a DSR product, DSR Methodology and supporting mechanism, which may satisfy the obligations stated in the proposed Special Condition 8I, whilst meeting the expectations of relevant industry parties and demonstrating a clear improvement to the current regime aligned with the Relevant Objectives.
- A draft consultation report detailing the proposed draft DSR Methodology and supporting mechanism is consulted upon with the industry and any other interested parties.
- The subsequent consultation report, along with all industry responses, will be issued to Ofgem for consideration. (Submit report to Ofgem no later than the 1 March 2015), if approved by the Authority, National Grid Transmission will be required to run a low cost trial of the Methodology.
- National Grid Transmission will subsequently produce and submit a report on the trial to the Authority.

Following the trial, and pending a further Authority direction, the final Workgroup Report will be completed to capture the final business rules and Legal Text and then the modification will be progressed through the normal Modification Process route, to the UNC Panel for recommendation, and for Authority decision on implementation.

The obligations set out in the proposed new Special License Condition 8I is attached below and should form the basis upon which this proposal is further developed:



DSR licence
condition stat con...

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User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

As the development of the DSR Methodology has not been completed, it is as yet unclear whether this proposal will meet the User Pays criteria. We anticipate that there are likely to be some costs associated with the development and implementation of a DSR mechanism. However, our initial thoughts are that if actions taken by National Grid Transmission, under the guidance of the DSR methodology, are aligned with the current processes, for existing Market Balancing Actions, there may be no requirement for changes to the UK Link system suite, or other Xoserve administered processes. Therefore the proposal may not meet the criteria for User Pays Classification.

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 at this stage

Proposed charge(s) for application of User Pays charges to Shippers.

N/A at this stage

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

To be completed before a modification is issued to consultation

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	Positive
c) Efficient discharge of the licensee's obligations.	Positive

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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.	Positive
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

a) Efficient and economic operation of the pipe-line system and b) Coordinated, efficient and economic operation of the combined pipe-line system; and

b) Coordinated, efficient and economic operation of the combined pipe-line system

If implemented the proposed DSR methodology and mechanism may facilitate further Demand Side Response from end consumers who may otherwise not respond to a Gas Deficit Warning, where the system is in a significant Supply/ Demand deficit. This type of DSR may provide additional volumes that in some instances would be sufficient to prevent escalation into a Gas Deficit Emergency. We believe that such additional response may therefore demonstrate an improvement to the efficient and economic operation of the pipe-line system during specified times where the system is stressed. Additionally we believe that the proposed changes may provide an improvement in the coordinated efficient and economic operation of the combined pipe-line system as the proposed DSR Methodology seeks to enable DSR from System Points within the LDZs as well as System Points directly connected to the NTS.

c) Efficient discharge of the licensee's obligations.

This proposal has been raised as a result of the Ofgem's proposed draft revision to National Grid Transmission's Gas Transporters Licence that seeks to introduce a new Special Condition; Special Condition 8I – 'Development and Implementation of a Demand Side Response methodology for use after a Gas Deficit Warning'. Therefore, we consider that the development of this proposal seeks to facilitate the efficient discharge of the Licensee's obligations by completing this development in time to enable implementation of any new arrangements within the timeframe currently proposed in the draft licence conditions.

e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards

The proposed Special Condition 8I would require that accepted DSR offer prices feed into cashout on the Day, therefore we believe that this proposal, if implemented, introduces a reasonable economic incentive for relevant suppliers to secure that the domestic customer supply security standards.

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5 Implementation

It is not clear at this stage what the implementation timescales, associated with this proposal, will be. We anticipate that the implementation date and timescale will be clarified as part of the Proposal's Workgroup development – see Appendix 1 for our initial thoughts.

At present we are not proposing a specific implementation date for this Modification Proposal the proposed new licence obligation does not specify an implementation date for the DSR Methodology, although Ofgem have indicated that a Winter 2016-17 delivery would be preferable.

The proposed licence obligation specifies the following timescales for development of the DSR methodology:

- The Licence Obligation states that the DSR Methodology must developed in consultation with the Industry, a report submitted for industry wide consultation, and the report and consultation responses sent to the Authority for approval no later than the **1 March 2015**; and
- No later than **90 days** following the receipt of the proposed DSR methodology report, the Authority will make a decision on whether to approve the DSR methodology. Where the authority approves the Proposed DSR Methodology Report, it may direct National Grid to run a paper based trial;
- Upon Completion of the Trial National Grid will be required to prepare and issue a report to the Authority within **28 days** of the final day of the trial
- Following **28 days** after receiving the Trial report, where the Authority, has not stated otherwise, National Grid is required to develop the appropriate modifications to the Uniform Network Code and other processes and systems to enable it to implement the DSR Methodology.

Cost

As we are intending to develop the DSR Methodology and supporting mechanism through the Workgroup it is not yet clear what the development, implementation and operational cost, associated with this proposal, will be. However we anticipate that there may be potential costs associated with:

1. NGG running, administration and reporting on the Trial
2. The development and implementation of an OCM DSR Platform; and
3. Shipper/supplier and end consumer administration costs associated with establishing contracts and monitoring DSR offers

6 Legal Text

Legal text is to be drafted as part of Workgroup developments. However we anticipate that the UNC TPD sections likely to be effected are section D, section F and section Q.

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7 Recommendation

The Proposer invites the Panel to:

- Progress to Workgroup assessment.

see Appendix 2 - DSR Methodology conditions to be met; and Issues to be considered by the Workgroup

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Appendix 1

We recommend that the following timetable and particular areas are consider by the workgroup:

We propose that five Workgroup meetings are initially scheduled with the Final Workgroup meeting scheduled in November 2014, with a Workgroup Report being submitted back to the UNC Panel in preparation for an initial consultation to be run in December/January with a consultation report being submitted to the Authority by 1 March 2015.

The Initial Workgroup meeting – scheduled 2 July 2014

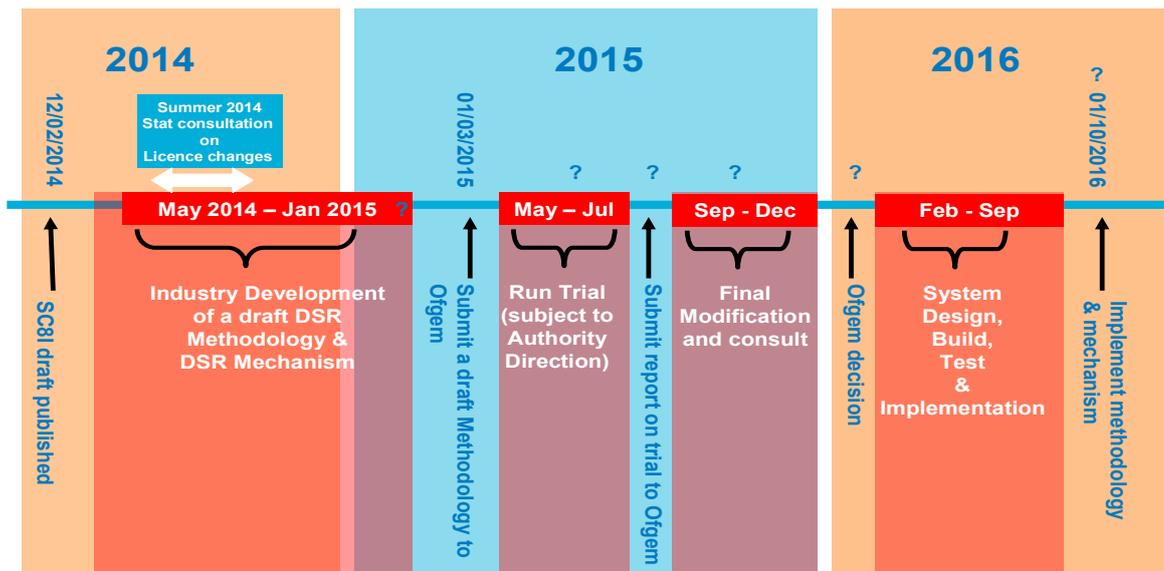
In which we recommend the inclusion of the following agenda items:

- Background, Terms of reference
- Introduction of the Draft DSR Strawman framework detailing the key features of a proposed DSR mechanism that has been developed by National Grid Transmission following initial exploratory meetings with various industry parties during May and June of this year.
- Identify key issues and areas to be considered and developed by the Workgroup
- Allocate each of the above key issues to a subsequent Workgroup meeting at which such issue(s) will be further developed and resolution agreed.

The Table below provides a summary of the timescales prescribed by Special Condition 8I:

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DSR Methodology and Mechanism Timescales



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Appendix 2

1. DSR Methodology Conditions to be met

The following DSR conditions have been identified, to date, as either requirements specified through the proposed Special Condition 8I or identified through previous Industry discussion. These key features will form the basis upon which the DSR Methodology will be developed:

- Trigger Gas Deficit Warning (GDW)
- DSR Offers accepted from GDW up to end of stage 1 GDE (NGG still in the market)
- Three way party interaction – NGG to Shipper/Supplier (on behalf of Customer)
- DSR Offers only to be accepted by NGG in this role as Residual System Balancer
- DSR Offers held in price stack order with all other OCM offers - lowest price in stack first accepted – aligned with SMPS
- DSR offer could be made in Tranches
- A DSR mechanism linked to the OCM platform could allow an automatic feed into Energy Balancing system clearing prices
- Potential for trades to be undertaken as multi-day trades
- DMC (site > 2 Million therms per annum)

2. Issues to be considered by the Workgroup:

As part of their responses to Ofgem's Final Policy Decision on the SoS SCR the Industry identified a number of key issues and areas that needed to be addressed if the DSR Methodology was to go forward.

- **What is the DSR product** - turn down to or turn down by
- **Contractual Arrangements** - Shipper, Supplier and End Consumer roles must be clearly defined. In respect of facilitating transactions, contractual relationships, liabilities and how contracts should be reported on under existing regulatory requirements.
- **Development of a Paper based Trial** - should be measured and reported against clearly defined success criteria to make clear whether or not to proceed with full implementation
- **Volumetrics** - Metrics will need to be established to ensure viability of mechanism
- **Development of a DSR OCM platform** - understanding the pro and cons of using the OCM, need to understand development costs
- **Accepted DSR Offers feed into cashout** - Offers must be transparent and updated into Cashout prices in "real-time"
- **DMC eligibility** – Demonstrate how the exclusion of any party is reasonable and consistent with the relevant objectives particularly in respect of Gas Fired Generation. Consider unintended consequences of the Capacity Mechanism design and penalties.

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