

Representation – Draft Modification Report UNC 0852

Shipper notification in relation to option exercise for Customer Demand Side Response

Responses invited by: **5pm on 22 February 2024**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Matt Newman
Organisation:	National Gas Transmission (NGT)
Date of Representation:	22 nd February 2024
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) Efficient and economic operation of the pipeline system - Negative</p> <p>d) (i) securing of effective competition between relevant shippers - Negative</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for opposition:

NGT oppose implementation of this Modification which seeks to place an obligation on NGT to notify Shippers in the event of DSR being exercised directly with a Consumer which is an alteration to the business rules and obligations introduced as part of UNC Modification Proposal [0844](#).

NGT's opposition of this Modification covers both the principle and practical aspects of the proposed obligation. Our primary opposition is on the principle but also there are also practical considerations which have potential to impact GB security of supply:

Principle

There is an established contractual and information flow chain in the gas industry of transporter to shipper to supplier to consumer and vice-versa. Modification 0844 was raised by NGT to enable direct contracting with consumers for DSR options which circumvents this specifically for the purpose of entering DSR contracts. Modification proposal 0852 therefore proposes that because NGT now has this relationship which the shipper is not party to, it should also have an obligation to inform its direct customer (the registered shipper) if that option is exercised, i.e. DSR is called in respect of that site.

It is important to appreciate the context in which NGT raised Modification Proposal 0844.

The Modification Proposal was raised in response to feedback from some consumers that direct contracting was their preferred means of contracting for DSR rather than going through their shipper. This was supported by some shippers who argued in consultation responses to Modification Proposal 0822 that the risks of arranging DSR would not be outweighed by the reward, the implication being that DSR is an unattractive product for shippers to market to consumers.

NGT's preference would ordinarily have been to maintain the established contractual chain. However, the feedback detailed above, together with NGT's desire to grow the DSR market (as a hitherto untapped balancing tool that could be deployed at times of system stress to mitigate the risk of a Network Gas Supply Emergency) led us to challenge the established convention and ultimately deliver the ability for consumers to deal directly with us for DSR.

Having therefore already agreed to take a role outside convention in this way, we do not believe it is appropriate to step any further into the shipper role as Modification 0852 proposes, as this weakens existing and established communications between the consumer and shipper on matters relating to gas flow and / or disruptions to such gas flow (for example, due to unplanned issues). Rather, if DSR is called, we consider that the consumer should inform the shipper as part of what we expect should be 'business as usual' (BAU) practice. Exercise of a DSR option is one of many factors that could cause a consumer's planned rate of offtake on a given day to change from what was previously expected, for which we assume there are existing communication arrangements in place between site and shipper to enable the shipper to submit accurate transportation nominations and manage its scheduling and imbalance risk.

We did propose in Modification 0844 to notify the relevant GDN of the exercise of a DSR option due to the physical action required by the GDNs; this reinforced already established inter-transporter arrangements and is appropriate given that the consumer has no direct relationship with its GDN insofar as DSR is concerned.

Practical

During the various workgroup discussions, we have raised our concerns with regards to the practical elements to Modification Proposal 0852.

DSR can be exercised on a 24/7 basis and as a result notification from NGT to Shippers would need to be a Control Room activity. We have raised concerns surrounding the potential impact on the Control Room's ability to effectively manage a supply shortage and discharge their primary role of running and maintaining efficient network operation, if they were to take on the administrative task of notifying the Shippers in the event of Consumers being exercised.

NGT does recognise that the outcome from the 2023 DSR Invitation to Offer process where we accepted 9 bids across different Shippers is currently likely to be manageable. However, we are actively looking to grow the DSR market and have two new UNC Modification Proposals in flight which are [0866S](#) and [0867](#) that are designed to enhance the current regime, and increase the available volumes and number of Consumers who participate in DSR. Therefore, NGT considers it to be reasonable to factor in the potential future growth of the market and the impacts of taking on the proposed obligation for notifying Shippers of DSR being exercised.

If the market does grow, there is a risk that timely notifications to the relevant Shippers cannot be provided or notification is made to some but not all. This would result in a risk to competition and may result in unequal treatment of Shippers with regards to managing their imbalance risk and therefore, we consider it negatively impacts on relevant objective “d) (i) securing of effective competition between relevant shippers”

Furthermore, a consumer can change its shipper at any time. In a supply shortage situation, which could occur outside of normal business hours, it would not be feasible for Control Room staff to check with the CDSP whether the Shipper at the time the option was agreed is still incumbent before issuing the notifications, which could be to the further detriment of relevant objective (d)(i). To avoid this, it may be possible for NGT to establish a new service line with the CDSP to inform GNCC on a daily basis of who the registered shipper is for each consumer that holds a DSR option but we do not believe that this would be an efficient use of the CDSP’s resources.

In relation to Relevant Objectives, we note that the Proposer considers Modification Proposal 0852 to be positive for (d) securing effective competition, yet the rationale is concerned with additional security for Shippers rather than competition benefits.

Additionally, NGT consider Relevant Objective “a) Efficient and economic operation of the pipeline system” is negatively impacted by this Modification Proposal because it would result in NGT having to complete an administrative task for which a process exists via the existing contractual relationships which would take them away from their primary duty of managing the network. NGT believes that existing and established communication channels between Shippers and Consumers should provide an adequate mechanism for Consumers to confirm to their registered Shipper (potentially via their Supplier), of a reduction in their offtake in the event of their DSR Option being exercised. These channels of communication are currently utilised to confirm both planned and unplanned reductions in consumption and to confirm their BAU consumption values.

Under the current arrangements, following the assessment and award of DSR contacts NGT notify the registered Users (Shippers) of the consumers who have been successful within their portfolio. In the event of the market triggers for opening the DSR market being met (a Gas Balancing Notification or Margins Notice) a notification is issued to all Shippers via our ANS system. Therefore, NGT consider there to be enough information available to Shippers for them to actively engage with their customers through the established communication channels to determine if their DSR Option has been exercised.

Workgroup discussions have covered these topics however, we do not believe that the Proposer has demonstrated why notification of DSR exercise by consumer to shipper would not effectively be a 'business as usual' activity.

Impacts and Costs:

If this Modification is implemented, NGT’s ability to manage GB security of supply could be negatively impacted.

Impact on NGT:

- Impact the Control Rooms primary duty of managing the network and in managing a potential supply shortage which may reduce the effectiveness of the pre-emergency tools due to additional responsibilities being undertaken, or result in failure to complete the required processes resulting in equitability issues.
 - Likely to introduce additional pressure / stress on the control room staff when it is already a stressful situation whilst managing a supply shortage. This may result in delays to operationally critical tasks which can only be completed by Control Room staff.
- Potential for parties to claim NGT have acted discriminately towards some Shippers if we are unable to provide notification of exercise to all the relevant Users in a timely fashion.
- Inefficient use of time and resource due to the requirement to replicate a process that already exists between Consumers and Shippers.

Implementation:

NGT does not support implementation of this Modification Proposal for the reasons outlined within this consultation response.

Legal Text:

N/A

Ofgem Questions:

Q1: If appropriate for your business, please explain what arrangements are already in place for large consumers to report any emerging issues (such as unplanned shutdowns) to shippers. Following this, please explain what barriers are in place to prevent similar arrangements being used for Demand Side Response communications.

Answer: Nothing further to add.

Q2: The panel have also asked you to please provide your views and reasons on the appropriate governance for this Modification - Self-governance or Authority Direction.

Answer: NGT consider this Modification to be Authority Direction and welcomed Ofgem's decision to reject the self-governance statement due to the potential impact on GB security of supply.

Q3: Please provide additional evidence in respect of the materiality of this Modification, i.e. Shippers, Suppliers and Customers as to why National Gas Transmission should be required to provide this service over and above normal BAU activities that apply to a Customer's normal contractual interaction with its Supplier and/or Shipper, and from National Gas as to why providing this service may have a material impact on the operations of the Control Room.

Answer: As outlined earlier in this consultation response, NGT considers there is potential for a material impact on the Control Room and their ability to manage a supply shortage, which in turn has potential to have a negative impact on GB security of supply should this

Modification be implemented. With the current size of the DSR Market, this is likely to be manageable but will still put additional pressure on the Control Room. NGT are actively taking steps through UNC Modification Proposals 0866 and 0867 to grow the DSR Market in terms of the volume we can procure and the number of consumers that can participate. Therefore, it is not unreasonable to consider the consequences of a larger market and the increased workload for Control Room operatives as a result of Modification Proposal 0852.

The attached diagrams highlight the high level responsibilities of the Commercial Officer and Commercial Lead who run the commercial desk Control within the Room when they are managing a supply shortage along with their BAU activities. We have utilised the actual impacts from 1st March 2018, the most recent instance where the Control Room were operating under a state of duress and is the only occasion that the DSR Market has opened to highlight the additional workload. During this period, the control room were under significant stress and their primary objective is to maintain pressure of the NTS and protect consumers.

Key:

Black text = BAU tasks

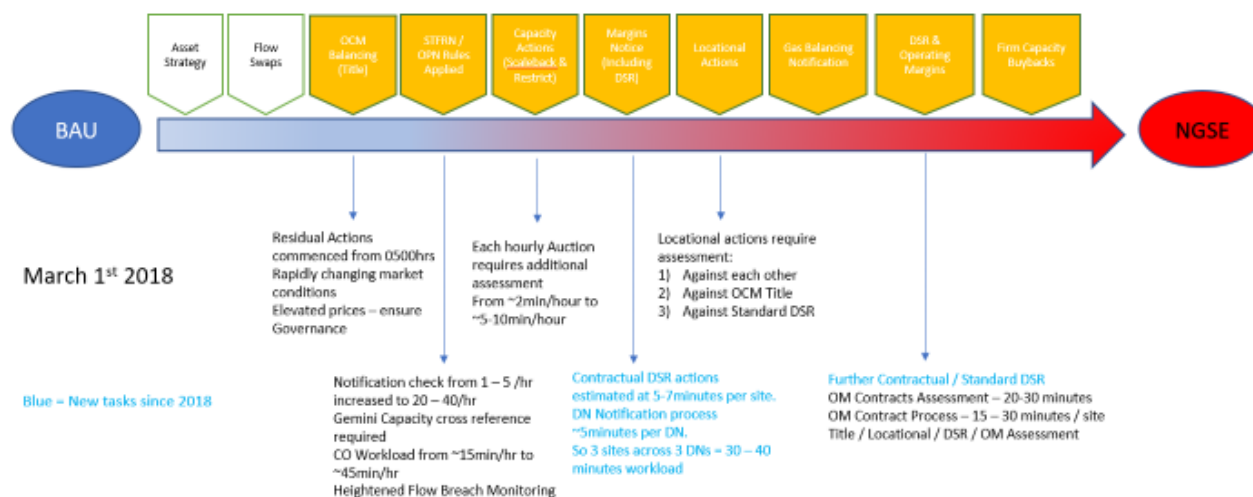
Amber text = Impactful increase in workload

Red text = Significant workload increase



This highlights there is a material increase in workload and are still required to deliver against BAU operations.

The timeline below is based on the commercial activities within the control room during Beast from the East on 01st March 2018. It demonstrates the normal BAU workload and times required to complete the tasks and how long they were taking to complete whilst under a state of duress due to a constraint / supply shortage scenario.



Some of the key stages to highlight from the timeline are:

1. The publication of a Short-Term Flexibility Restriction Notice (STFRN)

Following its publication, the amount of time the Control Room spend on reviewing Notifications increases significantly from ~15 minutes to ~45 minutes per hour which is a ~200% increase. This is largely due to the increase in checking from ~1-5 to 20-40 per hour.

2. Capacity actions

Hourly auctions require publishing and processing by the Control Room and there are specific UNC obligations on the timings that these need to be completed by. If an auction runs late it could have a detrimental effect upon Shippers. Additionally, we are likely to be scaling back and reviewing other commercial tools available which is estimated to increase the workload in the best case scenario from 2 to 5 minutes (150% increase) or worse case 2 to 10 minutes (400% increase).

3. New processes that have been introduced since March 2018 – DSR

Current estimates suggest that DSR related workload may be significant even with the current level of participation. We estimate that that following the publication of a Margins Notice there is potentially an additional 30 – 40 minutes of work to be completed.

Therefore, due to the additional workload already being completed by the Control Room on top of their BAU activities, NGT considers that if we were to take on the obligation to notify Shippers following a consumer being exercised, and the DSR Market continues to grow, there is a real and material risk to GB security of supply because it is likely to limit our ability to effectively manage the supply shortage. Additionally, the existing

communication channels between Shippers and Consumers should be sufficient in communicating the reduction in demand as they are for all other reductions in demand.

Error or Omissions:

N/A

Additional analysis:

N/A