



Gas Demand Side Response Methodology

Consultation Report 2018/19

March 2019

nationalgrid

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This report contains the outcome of National Grid's recent consultation undertaken in respect of the Gas Demand Side Response (DSR) Methodology. This report and the preceding consultation have been prepared in accordance with Special Condition 8I of our Gas Transporter Licence "Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning".

Background

The Gas DSR Methodology sets out the details of the DSR product. DSR provides an additional 'route to market' through which gas consumers can offer to turn down their consumption of gas at times of gas system stress in return for a payment. On 21st September 2015, the Authority directed National Grid NTS to implement the DSR Methodology effective from 1st October 2016.

Special Licence Condition 8I requires National Grid to annually review the DSR Methodology in consultation with the industry.

Views Received

We received one response to this year's Gas DSR Methodology Consultation.

This respondent believed that National Grid had designed DSR arrangements that met the requirements of its Special Licence Condition 8I. However, this respondent was also of the view that both option and exercise prices should be permitted to better meet the DSR principles and that the current lack of option prices is a barrier to DSR being offered. The respondent further notes that both option and exercise prices are a feature of the equivalent electricity scheme.

National Grid Response

Whether National Grid should offer option prices or exercise prices only was an issue that was discussed at the time that the Gas DSR arrangements were designed. The question for this consultation is whether such a reform would better meet the DSR principles, specifically, in our view, principle (h) which is to *"ensure that Demand Side Response is procured in a manner consistent with the Licensee's duties under the Act and, in particular, the Licensee's obligation to operate the pipe-line system to which this Licence relates in an efficient, economic and co-ordinated manner."*

When Gas DSR was being developed, National Grid commissioned an external cost/benefit analysis to assess the viability of option fees within three different potential models for how the arrangements might operate. It was recognised that option fees could provide certain benefits; they might encourage greater volumes of DSR to be offered and provide National Grid with a view of what DSR volumes were available prior to the declaration of a Gas Deficit Warning. However, this work concluded that option fees would result in a net cost to the industry because of the low probability of their exercise being required. National

Grid is not currently aware of any factors that would change this conclusion and therefore we do not at this time consider that such a reform would better meet the current DSR principles.

We recognise that option and exercise prices are a feature of the equivalent electricity scheme. In the electricity arrangements, there is a Security and Quality of Supply standard which National Grid in its capacity as Electricity System Operator has an obligation to meet. This requires National Grid to assess the electricity security of supply risks based on the level of system margin, determine a quantity of reserve that is needed to cover those risks and contract for services to cover the identified requirement. Option and exercise prices are typically a feature of these contracted services, not because such a structure is mandated but rather as a commercial decision by the ESO to balance the need to secure demand turndown with the optimisation of procurement costs and implement a contract structure proportionate to the risk. No such equivalent requirement currently exists for National Grid in gas arrangements.

We do however intend to further discuss the concerns raised with this respondent.

Conclusions and Final Proposals

In light of the industry responses received, at this time we do not consider there to be any revisions to the Demand Side Response Methodology that would better achieve the Gas DSR Methodology Principles.

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