

DSR Methodology and Framework Consultation - Summary of Representations

02-Feb-2015

	Total Reqs Received	Respondent
Number of respondents	12	
End Consumer group representative & End Consumers	4	BGMC, EIUG, BCC, MEUC
Shipper	5	E.On, Energy UK, SSE, BGT Ltd, RWE Npower Group(Gen, supply & Trading)
DNO	2	NGD, SGN,
Regulatory Body	1	HSE

Consultation Question	Stance	Number of Respondents	Comments	Respondents Name
Q1: Do you consider that the DSR Framework and Methodology should set out provisions for the gas procurement arrangements between National Grid and Shippers, with only high level references to the Demand Side Response contractual arrangements between Shippers/Suppliers and Gas Consumers?	Agree	9	"It would be inappropriate and not possible for National Grid to seek to prescribe or influence contractual terms between shippers/suppliers and gas consumers. It is therefore important that the DSR Framework and Methodology should focus on possible arrangements between National Grid and shippers that might be enforceable via modifications to the Uniform Network Code. Any reference to arrangements between gas shippers, suppliers and consumers should be for guidance/information purposes only."	
			"It is not the role of a framework or methodology to set out detailed contractual arrangements rather setting out high level principles is appropriate"	
			"By allowing parties to negotiate specific terms on contractual agreements such as lead-times, reduction profiles, notification periods, tick down aspects, specific consumers needs can be accommodated more successfully than trying to set out criteria.." It may be useful to 'have a standard proforma for submitting offers to suppliers' and if taken forward, 'must be designed with input from all customers...'	BGT, SSE, E.On, Energy UK, RWE, BGMC, EIUG, BCC, MEUC
	No Comment	3		SGN,NGD, HSE

Majority viewed that Shipper to End Consumer DSR contractual arrangements should not be prescribed within the DSR Framework and Methodology

Q2: do you consider that the current OCM provides an appropriate platform to facilitate the provision of a DSR product?			"we consider it is a cost effective means to deliver DSR provision"	
	Agree	7	"well established platform that shippers are familiar with, which is likely to be important in the run up to an emergency." "Extending the scope of the existing OCM Locational Market to include the new DSR product would be more cost effective for end consumers (who ultimately bear the costs) compared to building new, separate DSR Platform"	SSE, E.On UK, Energy UK, RWE, BGMC, MEUC, BCC
	Comments	1	"While not used extensively, it would be preferable if this market could be retained and a view of the costs involved of retaining the existing Locational Market in addition to a revised DSR version would be welcome." "probably the main disadvantage is the potential lack of visibility to National Grid of the bid information until a GDW is issued....difficult for National Grid to monitor and assess the industry take up of the DSR product", "a key (and probably over-riding) advantage is the likely low cost of using currently available facilities."	
	No Comment	4		BGT, MEUC, HSE, SGN, NGD

Majority of respondents agreed that the current OCM locational market would deliver an effective platform to deliver the DRS Product, however there were concerns expressed regarding visibility of other locational tools which also utilise this market. Some End Consumers responses considered that they did not have enough knowledge about the OCM to comment.

Q3: Does the proposed DSR Product meet your expectations in respect of providing sufficient market offer flexibility to match your operational requirements when determining and offering DSR? If not, which aspect(s) would you change, add or remove?	Yes	9	"A Daily Product and Multi-day Product, together with the ability to offer different volume and price combinations and multi" "The products should help to limit daily interaction between shippers, suppliers and consumers because they to some extent remove the possible need for daily revisions to bids (which would probably be required had the weekly profile option not been devised). This should help to keep shipper/supplier administration costs down." "Yes, although the extent of the flexibility may not be clear and may be subject to Shipper/supplier's decision." "BCC welcome the ability to submit DSR offers over a single day or grouped multiple days and for the ability to submit separate tranches (each if which may be priced individually)." End Consumers highlighted the concern that, "One element of the proposal that could cause difficulty is the requirement to turn down by an agreed volume rather than to a predetermined level of consumption of consumption when the consumer's peak demand may vary."	BGT, SSE, E.On UK, RWE, Energy UK, BGMC, IEUG, BCC, MEUC
	No Comment	3		HSE, SGN,NGD,

All who respondents considered that the proposed DSR product provided sufficient flexibility, however with that flexibility some shippers, the responded, raised concern regarding resources required at stressed times to accommodate such flexibility. End Consumers raised concerns over the difficulties associated with responding to the offer with a specified volume of reduction.

Q4: Do the criteria and arrangements set out within the Framework and Methodology for the posting and processing of DSR Offers meet your requirements? If not, could you describe the new issues you would like to be considered?	Yes	8	"From the shipper perspective, the requirement to update and/or withdraw offers should be subject to individual contract, rather than seen as a generic feature of the arrangements. Shippers may want to set their own limits on the frequency and lead-times with which offers may be updated and/or withdrawn, particularly at times of tightening supply and demand, when their focus may be on other matters."	RWE, BGMC, MEUC, EIUG, Energy UK, E.ON UK, SSE, BGT
	Comments	1	"We believe that this minimum volume requirement is too high and rules out a large number of gas-intensive, industrial sites that might otherwise be willing to offer DSR. BCC strongly believe that a means of aggregating smaller sites (which individually are each below the threshold) is required to increase participation levels and hence increase the volume of DSR offered. Adopting such an approach would make the gas DSR product analogous to the electricity Demand Side Balancing Reserve (DSBR) product."	BCC
	No view	3		HSE, SGN,NGD,

Most agreed that the criteria and arrangements set out in the framework and methodology meet their requirements, and delivered a 'vanilla' product. Though some shippers, who responded, suggested that through individual Shipper/End Consumer contractual arrangements, it may be that limits on the frequency of bid updates are agreed in order that shipper's operational resources aren't impacted at time when they are most strained. Some respondents felt that there could be merit in considering the aggregation of volumes from several small site to make up the required minimum volume.

Q5: In respect of the development of the DSR Framework and Methodology, do you consider that you have been given sufficient opportunity to provide your input into the development of the DSR Framework and Methodology? Have we listened and taken account of your views?	Agree	9	"we have engaged in the DSR development process and have nothing further to add at this stage. We are pleased that NG has listened to customer and Shipper views throughout the development process and adapted their proposals as far as possible."	BGT, SSE, E.On UK, RWE, Energy UK, BGMC, EIUG, BCC, MEUC
	No Comment	3		HSE, SGN, NGD

All respondents stated that they were satisfied that they has been given sufficient opportunity to provide input to the development of the DSR Framework and Methodology.

Q6: Do you consider that the Draft DSR Framework and Methodology, the proposed DSR Mechanism and the suggested Shipper/Supplier to Gas Consumer service agreement structure delivers an efficient and economic approach, through which Gas Consumers may provide DSR, that may otherwise not be available during periods of acute gas market stress?	Agree	8	"But ultimately it will depend on the level of interest and uptake by Customers." "a balance has to be struck between offering new products and the cost of introducing them. So, whilst more flexible products (than those being offered) might seem desirable by consumers this has to be weighed against the cost of making these products available. We believe that the expected low-cost approach of the current proposals is sensible and will provide a proper balance between flexibility of product and the cost of implementation."	BGT, SSE, E.On UK, Energy UK, BGMC, EIUG, BCC, MEUC
	Comments	1	"Voluntary commercial interruption contracts can currently be signed, but a market has not developed for a number of reasons. One of the stated reasons is that end-users would prefer National Grid as counter-party and the current Draft DSR Framework and Methodology creates a proxy for this by limiting the DSR offers to be exercised only by National Grid for National Balancing Purposes and post declaration of GDW and up to the end of GDE stage 1. From this perspective, the Draft DSR Framework and Methodology may facilitate DSR volumes. However, it must be noted that shippers/suppliers still retain the central role in the contracting for, delivery of and liability for non-delivery of any DSR volumes. This will create additional risks for shippers/suppliers that are likely to be reflected in any premium for facilitating the service."	RWE
	No Comment	3		HSE,SGN, NGD

Most respondents agreed that the proposed DSR arrangements may deliver an efficient and economic approach, however it was caveated that this was dependant on Consumers participation uptake, the true cost of development and concerns associated with the Shipper/Consumer contractual agreement particularly in the context of Liabilities.

Q7: Do you consider that the DSR Framework and Methodology should set out provisions for the gas procurement arrangements between National Grid and Shippers, with only high level references to the Demand Side Response contractual arrangements between Shippers/Suppliers and Gas Consumers?		5	BGT commented that "The DSR Framework and Methodology correctly identifies the relevant contractual relationships for the posting of DSR Offers. Furthermore, it does not try to impose, or seek to impose, any limitations or requirements with regard to contractual arrangements between shippers and suppliers or between suppliers and consumers."	
	Agree			BGT, SSE,RWE E.On UK, Energy UK
	No Comment or N/A	7		BGMC, EIUG,BCC, MEUC,HSE, SGN, NGD

Respondents that commented agreed that the Framework and Methodology should set out NG gas procurement arrangements with only high-level reference to Consumer/Shipper contracts

Q8: Do you consider that the proposed DSR Framework and Methodology satisfies the eligibility criteria set out in the Licence condition SC8.4 (b)? If not, do you have any views on how to better satisfy this principle?	Agree	6	RWE commented that "The eligibility Criteria is based upon the UNC definition of a DMC Supply Point. Subject to meeting the minimum OCM offer quantity (100,000kWh/day), there are no further restrictions on participation."	BGT, SSE,RWE, E.On UK, Energy UK, MEUC
	No Comment or N/A	7		BGMC, EIUG,BCC, HSE, SGN, NGD

Agreed that eligibility criteria satisfied the licence condition

Q9: Are you satisfied that the introduction of the DSR Framework and Methodology through the proposed revisions to the Locational Market of the OCM Platform is the most appropriate approach to meet the principles set out in Licence condition SC8.4 (c)? If not, would you like to share any other options which in your opinion would better satisfy this principle?	Agree	5	RWE commented that " It is difficult to comment on the appropriateness of a particular approach. As proposed, the DSR Framework and Methodology meets the objectives that the Licensee is the sole party able to accept DSR offers. Modifying existing functionality to facilitate that is a pragmatic approach."	BGT, SSE,RWE, E.On UK, Energy UK
	No Comment or N/A	7		BGMC, MEUC, EIUG,BCC, HSE, SGN, NGD

General view was that the proposed arrangements met this Licence condition through a timely and potentially low cost approach

Q10: Do you consider that this proposed DSR Framework and Methodology satisfies the principle set out in Licence condition SC8.4 (d) which requires all DSR Offers to be treated as 'Eligible Balancing Actions' and included in System Clearing Contracts and the calculation of Cash-out prices? If not, could you provide details of any compatibility issues that you feel would conflict with this principle?	Agree	5		BGT, SSE,RWE E.On UK, Energy UK
	No Comment or N/A	7		BGMC, MEUC, EIUG,BCC, HSE, SGN, NGD

General view was that the proposed arrangements met this licence condition

Q11: Do you consider that the proposed DSR Framework and Methodology provides you or other Gas Consumers with an additional 'route to market'?	Agree	9	"BCC believes that the proposed DSR framework could provide an additional route to market for some large, industrial gas users that have the flexibility to sacrifice consumption in excess of 100,000 kWh/meter point/day."	BGT, SSE, E.On UK, RWE, Energy UK, MEUC, BGMC,EIUG, BCC
			BGMC commented that, "Yes. Where customers can be part of the solution before a gas deficit emergency, they should be offered financial incentives thereby protecting the supply for users whose VOLL is much higher."	
	No Comment or N/A	3	"EIUG believes that the proposed DSR framework could indeed provide an additional route to market for energy intensive industrial gas users, and potentially other large gas users too. The extent to which this route to market is likely to be exploited by energy intensive industrial gas users is far from clear, however." RWE commented that, "The route to market already exists, so cannot be considered additional. What it does do is introduce National Grid as counter-party so it does address possible barriers to consumers providing DSR volumes, subject to agreeing a contract with a shipper/supplier."	HSE, SGN, NGD

All respondents that commented, to varying degrees, agreed that the DSR product may provide a 'route to market', however some respondents caveated this by highlighting the uncertainties associated with contractual arrangements and minimum bid size volumes.

Q12: Does the proposed DSR Framework and Methodology provide a 'route to market' for a DSR product that you would be interested in providing?	Comment	5	BGT commented that "Our interest in facilitating this route to market will depend on the contractual terms that can be agreed with suppliers/ consumers." BCC stated	BGT, BCC, EIUG, SSE, Energy UK
			BCC commented "very few ceramic manufacturing sites that would be able to meet the 100,000 kWh/meter point/day minimum offer size. We believe that aggregation across smaller sites is required to increase participation levels" EIUG stated	
			EIUG commented "It is not clear to what extent the proposed DSR Framework and Methodology will succeed in providing a route to market that EIUG members would be interested to provide. This will depend on the contractual terms available. Nevertheless, we understand that a number of EIUG members are potentially interested in discussing terms with shippers/suppliers."	
	No	1	"THEIR LOGIC BEING IF, AS OFGEM SAY IN THEIR FINAL POLICY DECISION DOCUMENT ON PAGE 19 "THEREFORE THE LIKELIHOOD OF THE MECHANISM BEING UTILISED IS EXTREMELY LOW" THEY FEEL IT WOULD BE A WASTE OF THEIR TIME NEGOTIATING ADDITIONAL CONTRACT TERMS WITH THEIR SUPPLIER AND CONSIDERING THE LEVEL OF BID TO SUBMIT, OR IN OFGEM TERMS THE COST BENEFIT OF BEING INVOLVED IS NOT JUSTIFIED."	MEUC
Yes	2	BGMC stated "Yes, it is likely that some glass sector companies will be interested in discussing DSR offers with their supplier / shipper."	BGMC, E.On UK	
No comment	4	E.On UK stated "As a Shipper/supplier, we are happy to facilitate customer participation in this process."		

Mixed views were expressed to Q12: some respondents noted that appetite for utilising the product depended on the contractual arrangements, some suggested that the minimum bid size could put consumers off participating and perhaps aggregator arrangements could be considered.

Q13: Would you agree that the proposed DSR Framework and Methodology does not unduly preclude the emergence of further commercial interruption arrangements? If not, could you provide information regarding which element you feel could prevent the emergence of commercial interruption, and any view on how this could be mitigated?	Agree	8	MEUC stated "YES – I AGREE THAT IT DOES NOT PREVENT COMMERCIAL INTERRUPTION EMERGING; IN FACT THE ONLY DIFFERENCE FOR A CONSUMER BETWEEN THE TWO IS THAT THE NG PROPOSAL LIMITS THE POINT AT WHICH THE INTERRUPTION CAN BE EXERCISED"	BGT,SSE,EON UK, RWE, Energy UK,BCC, IEUG,MEUC
	No Comment	4		RWE, HSE, SGN, NGD

General view was that the product would not impact the emergence of commercial interruption

Q14: Do you foresee any distortions or unintended consequences that the introduction of the DSR Framework and Methodology may have on the existing gas market or gas supply contract arrangements and the principle of parties balancing their own positions in the wholesale gas market?		3	SSE concurred with Energy UK that "No – however the issue of non-delivery of exercised contracted volumes will need to be addressed in customer – supplier contracts and if this occurs could give rise to shipper imbalance."	
			BGT commented "We do not foresee any distortions or unintended consequences. However, contract negotiations may prove to be more difficult especially until such a time as experience is gained by shippers, suppliers and consumers in formulating contractual terms and conditions pertaining to the provision of DSR Offers"	
	No issue foreseen			RWE noted that "The design of the DSR Framework and Methodology retains the focus on shippers balancing their own positions, with the DSR arrangements only deployed in clearly defined circumstances. We agree with National Grid that the proposals are unlikely to reduce liquidity."

Comment	1		E.ON UK
No Comment or N/A	8		RWE, IEUG, BGMC, BCC, MEUC, HSE, SGN, NGD
Respondents highlighted concerns associated with non-delivery of exercised contracts and the consequences this may have on the shippers balance position and financial risk. They noted that these risks would need to be addressed as part Shipper/ Consumer Contract			
Q15: Do you believe that the proposed DSR Framework and Methodology facilitates the procurement of DSR in a manner consistent with the National Grid's obligation to operate its pipeline system in an efficient and economic manner?			
		SSE and Energy UK stated " This question relates to the issue of an option fee as a means of attracting more participation but analysis showed this was not cost effective given the frequency within which the product may be utilised. We maintain our view that an option fee would be likely to increase participation but accept the position adopted."	E.ON UK, SSE, Energy UK, SGN
	4	" SGN highlighted the concern that, "We are unable to see any reference within the Framework or Methodology with regards to notification to Distribution Networks (DN's) of DSR interruption Unless DN's are notified, we will continue to include these sites in our forecast and take the gas from the NTS (unless sites affected have NEXA agreements and nominate to us directly) thus not reducing our intake and associated NTS demand." and "In addition, if the affected sites are shut down (without notification to the DN) at the start of the gas day when our network is fully linepacked, we will have nowhere to put the gas that these sites would have taken and therefore may need to break OPN rules in order to manage our network."	
		RWE commented that "We believe that the inclusion of an option fee would make the product significantly more attractive to customers (and also CCGTs), but inevitably this comes with a cost to industry and ultimately, consumers. We note the inconsistency between the current electricity Demand Side Balancing Reserve product, which does include an option fee, and this proposed DSR product in the gas market"	
Comments			
No Comment or N/A	7		RWE, BCC, IEUG, MEUC, BGMC, HSE, NGD
Yes	1	"It provides a proportionate approach at an expected minimal cost."	BGT
DNO raised concerns over associated with the operation of the pipeline system in terms of information provision associated with sites, within their LDZ, that may reduce offtake through DSR arrangement and having an offer accepted on the locational market.			
Q16: Do you consider that the proposed DSR Framework and Methodology would provide an improvement to the incentives on the gas suppliers to secure the domestic customer supply security standard?			
	4	SSE and Energy UK commented "Provided appropriate contractual arrangements can be put in place between customers and suppliers and all parties have confidence in these then this framework may assist suppliers in meeting the domestic security standard."	
		RWE Stated that "Implementation of a DSR mechanism will introduce the risk of VoLL into the calculation of cash-out prices. Coupled with the strengthened pricing signal from the reformed cash-out arrangements that will be implemented, this will provide strong incentives on shippers to take appropriate action to avoid an emergency occurring or at least being short during the emergency."	SSE, RWE, BGT, Energy UK
Yes			
	2	"BCC's long-standing position is for investment in measures that improve the physical availability of gas, principally additional gas storage, rather than complex market-based instruments (e.g. cash-out) that offer limited potential for our sector."	
		E.ON UK commented ".... In our view this product is unlikely to deliver sufficient volume in itself to avert a Gas Deficit Emergency. To potentially achieve this, CCGTs would have to be included in the scope of the product; which they are not." E.ON adds "In addition, we have no reason to believe the current domestic supply standard is not already being met and therefore "incentivising" anything above this, in an attempt to "gold plate" the standard, will come at a cost; ultimately to consumers."	E.ON UK, BCC
Comments			
No comment or N/A	6		IEUG, MEUC, BGMC, HSE, SGN, NGD
Although most shippers, that responded, broadly agreed that the proposed DSR arrangement would improve the incentive on security of supply, other respondents suggested that the DSR product might be too complex and unlikely to attract sufficient volumes to improve incentivise on the security of supply.			
Q17: We would value any additional comments you would like to share with us regarding the process we have adopted in developing of the DSR Framework and Methodology.			
		RWE commented "In our view, the current DSR Framework and Methodology is quite different from the centralised annual SO tender as contemplated in the Gas Security of Supply Significant Code Review. The DSR Framework and Methodology does meet the licence obligations, but does not give the SO any certainty over volumes ahead of the GDW/GDE. We recognise that having volumes contracted ahead of time may introduce some market distortions but whether, on balance, this is more consistent with the aim of the Gas SCR to reduce the likelihood, severity and/or duration of a GDE is a matter for the Authority to assess."	
	5	MEUC commented that "I CANNOT LET THE OPPORTUNITY PASS WITHOUT EXPRESSING MY MEMBERS VIEWS THAT THE OMISSION OF OPTION FEES HAS KILLED THEIR INTEREST IN THE SCHEME, WHICH WILL SIGNIFICANTLY REDUCE THE POTENTIAL NUMBER OF PARTICIPANTS...."	
		NGD commented that Whilst National Grid Distribution is comfortable with the Framework as identified, there is a concern that the relevant Distribution Network would have no visibility of an accepted Demand Side Response (DSR) Offer. It would be beneficial to the relevant Distribution Control Centre to understand what Offers have been accepted so that they may profile their planned gas usage for the day in a more accurate manner."	
		SSE and Energy UK commented "We consider National Grid has worked hard to engage with and encourage contributions from customers and their representatives as well as suppliers / shippers on this issue which is competing with many other regulatory issues at the current time."	SSE, RWE, Energy UK, MEUC, NGD
comments			