

## DSR Framework and Methodology Consultation

### Representation Pro-forma







(Close-out date for representations 23 January 2015)

Date: 23/01/2015

Organisation: RWE Supply and Trading GmbH, RWE Generation UK plc, RWE Npower Group

Is this response Confidential? NO

This document has been provided to facilitate your response to the DSR Framework and Methodology Consultation. In order to help draw your attention to the consultation questions that may be most relevant to you, we have colour coded the questions which may have greater relevance to you and your organisation. Please note that this is just a guide and we would welcome responses to all questions provided. The colour coding used is as follows:

-  Eligible Gas Consumer (Gas Consumption Annual Quantity (AQ) greater than 2 Million Therms)
-  Licenced Gas Shipper
-  Licenced Gas Supplier
-  User Group Representative (i.e. Energy UK, MEUC, EIUG etc.)
-  Licenced Gas Transporter
-  Other, if you believe you are none of the above then please give further details below:

Your Details:

## Consultation Questions

**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?**



Yes. The methodology should be limited to the arrangements between National Grid and Shippers, who are the parties under the contractual framework of the UNC. The product definition in the methodology should be detailed enough for the service requirements to form the basis of the contractual arrangements between the shipper/supplier and eligible end-user. Subject to this minimum service provision, we do not think that the DSR Framework and Methodology should prescribe the contractual arrangements between the shipper/supplier and eligible end-user. We believe that there may be merit in the minimum DSR service provisions being set out in a standard contract, with the shipper/supplier able to offer terms above the minimum if it chooses.

**Q2: Do you consider that the current On the Day Commodity Market (OCM) provides an appropriate platform to facilitate the provision of a DSR Product?**



We agree that the Locational Market on the OCM will, with additional functionality, facilitate posting of DSR offers as described in the methodology. However, it is not entirely clear from the description whether posting of non-DSR locational offers (i.e. that will be visible to all and acceptable by both shippers and NGG NTS) will still be possible. 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.

**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?**



A Daily Product and Multi-day Product, together with the ability to offer different volume and price combinations and multiple tranches should provide sufficient flexibility for most eligible end-users that wish to participate to tailor offers to reflect their operational requirements.

**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?**



The arrangements are clear about the posting and processing of DSR offers. The DSR Mechanism Process Flow sets out reasonably clearly the settlement and payment arrangements for offers exercised in the different Emergency Stages.

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.

**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?**



Yes. It has been an effective, collaborative development process and with a wide range of stakeholder views sought and reflected in the current DSR Framework and Methodology drafting.

**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?**



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.

**Q7: Do you consider that the proposed DSR Framework and Methodology appropriately meets the requirements set out in the gas Transporters Licence principles, i.e. that only signatories to the Uniform Network Code may post a DSR Offer? If not, please detail how you feel this SC8I.4 (a) licence obligation may be better achieved?**



Yes.

**Q8: Do you consider that the proposed DSR Framework and Methodology satisfies the eligibility criteria set out in the Licence condition SC8I.4 (b)? If not, do you have any views on how to better satisfy this principle?**



Yes. 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.

**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 SC8I.4 (c)? If not, would you like to share any other options which in your opinion would better satisfy this principle?**



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.

**Q10: Do you consider that this proposed DSR Framework and Methodology satisfies the principle set out in Licence condition SC8I.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?**



Yes, the methodology will treat exercised DSR offers as Eligible Balancing Actions.

**Q11: Do you consider that the proposed DSR Framework and Methodology provides you or other Gas Consumers with an additional 'route to market'?**



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.

**Q12: Does the proposed DSR Framework and Methodology provide a 'route to market' for a DSR product that you would be interested in providing?**



**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?**



The strengthened pricing signal from the reformed cash-out arrangements will provide strong incentives on shippers to avoid an emergency occurring or at least being short during the emergency. Shippers already deploy various mitigating measures such as procurement of storage or securing long-term supply contracts. There will be continue to be incentives for customers to sign commercial interruption contracts with shippers that may be exercised to prevent or limit a GDE. It will be a matter for customers and shippers to determine the value of providing the service, probably close to deployment rather than forward contracting. This commercial contract market can sit alongside a centralised mechanism operated by the SO.

**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?**



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.

**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?**



Given the low expected likelihood of GDE, we agree that procurement that is market-based and without option fees is consistent with National Grid's obligation to operate its pipeline system in an efficient and economic manner.

**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?**



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.

**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.**



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.