

## **Modification 0435 Overview [and Business Rules]**

### **Draft**

#### **High level summary of Proposal**

In order to assist in preventing the onset of a Gas Deficit Emergency (GDE), and to lessen the impact and duration of a GDE if one was unavoidable, modification 0435 establishes the following:

#### **Establishing and securing the required volume**

- Voluntary demand side response (DSR) and voluntary supply side response (SSR) will be sought from daily metered system points connected either directly to the gas Transmission Network, or to a Distribution Network.
- National Grid will, on an annual basis, assess the volume of voluntary DSR and SSR that will be required in order to meet the higher of:
  - The security standard applicable to GB as established by the European Security of Supply Regulation (EU) No 994/2010; and
  - Any other standard for gas supply security as established by the GB Competent Authority (DECC), where such a higher standard has been formally established.
- Having identified the volume requirement, NG will conduct a tender process in order to secure that volume at the lowest price. Where the DSR and/or SSR required in order to meet the prevailing security standard is assessed as being above zero, or in National Grid's reasonable estimation is expected to be above zero within a 5 year time horizon, the tender process to secure that volume will take place at least annually, and more often if required.
- For each tender, NG will establish and publicise the period over which it is looking to secure DSR and SSR services. The minimum period which NG can seek services is one day. There will be no upper limit.
- The tender process will be closely modelled on the prevailing arrangements which NG employs for securing competitive Operating Margins gas. An example of the standard contractual terms and conditions is set out in a separate document entitled which can be found at <http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins/>.
- It is possible that National Grid will conduct a tender process for the purposes of securing DSR and/or SSR services in accordance with the identified volume requirement, but that process has left some or the entire requirement unsatisfied either due to insufficient volumes being offered [or the prices required by tenderers being excessive in National Grid's opinion]. Where this is the case, National Grid will not accept any tenders in that round, and will advise all tenderers and other stakeholders of this outcome. National Grid will not, at this stage, divulge any price information on received tenders. National Grid will then re-run the process [within 3 months]. Where this again delivers insufficient volume or inefficient price, National Grid will write to the Authority advising of the outcome and seeking guidance on how it should proceed.

- **[Should any/all elements of OM gas be included in this volume in order to streamline processes?]**

#### Treatment of costs and cash-out prices

- Tenders will contain an option and an exercise fee.
  - **Option fees:** Option fees will be paid to shippers monthly (for onward payment to end DSR/SSR providers) in arrears, based on the shipper who is responsible for the relevant daily metered system point on the 15<sup>th</sup> day of each month.
  - Option fees will be collected through NG Transmissions' SO Commodity charges, split 50/50 between entry and exit. The cost of this will form part of National Grid's SO allowed revenue. It is recognised that a separate amendment to National; Grid's gas Transporter Licence will be required to give effect to this.
  - An option may only be exercised after a Gas Deficit Warning (GDW) or Margins Notice (MN) has been issued by National Grid.
  - **Exercise Fees:** Exercise fees will be paid where service providers are called upon by National Grid to take action in respect of a contracted volume, providing it can be demonstrated that they have acted in accordance with the terms of the interruption requirement – specifically volume and response time. Exercise fees will be funded through existing mechanisms. This will be treated as a market balancing action and as such will impact SMP for that gas day.
  - The cost of exercising any option will consist of two elements:
    - the “value of lost load”, as set out in the service providers contract. This will be paid to the relevant shipper in the month following the exercise of any option, for onward payment to the end provider; plus
    - a unit rate payment equivalent to 30 day average SAP. This will be payable to the relevant shipper as payment by National Grid for the purchase of the affected volume of gas.
  - Once an option has been exercised, the affected volume will remain exercised until countermanding instructions are issued by National Grid. For the avoidance of doubt, this will be the earliest of either the lifting of the GDW or MN, or a unilateral instruction from National Grid. This latter point will allow NG to optimise supply and demand balances within day, e.g. bringing back on DSR interrupted loads, or turning down SSR increased volumes, before the end of the gas day.
  - Where a DSR or SSR instruction has been issued by National Grid but then countermanded within the same gas day, National Grid will initiate a reverse trade for the residual volume, with the shipper of the affected system point. Again, 30 day average SAP will be used for this purpose.
  - However once an option has been exercised, the affected system point will be entitled to receive the relevant exercise payment until the end of each gas day

on which the exercise took place, irrespective of whether an exercise instruction is countermanded by National Grid within day.

- Any “exercise” fees will be contributed to by shippers who are “short” on the day the arrangement is exercised. In order to achieve this, in the first instance the unit rate (i.e. p/kWh) associated with a DSR or SSR action by National Grid will set the marginal “short” cashout price for that day i.e. SMP(b), until a higher priced balancing action (if any) is taken.
- End DSR and/or SSR providers who have contracted with National Grid for voluntary DSR and SSR services will be entitled to receive their contracted exercise fee payment in circumstances where NG does not call a voluntary response prior to declaring a GDE stage 2+ emergency and where that system is subsequent instructed to change its gas input or offtake by the NEC. This will remain payable until:
  - in the case of DSR, National Grid and or the NEC confirms that the customer is no longer subject to emergency instructions; or
  - in the case of voluntary SSR, until an instruction is given by the NEC in respect of the site for a delivery rate change. At this point, existing PEC processes take precedence.
- Were a GDE stage 2+ to be called which resulted in involuntary customer disconnections, the marginal “short” cash-out price would be frozen at the higher of:
  - the SMPb level prevailing at the time (as precisely as it can be reasonably ascertained) of the first such involuntary DSR called by NG. (NB: this price will be the highest accepted DSR/SSR exercise price, where any such volumes has been pre-contracted); and
  - where no voluntary DSR and/or SSR volume has been pre-contracted, the frozen price will be [ten times the prevailing 30 day average SAP].

Table summarising voluntary DSR and SSR arrangements

|  | DSR/SSR offer accepted  | DSR/SSR offer not accepted  | Eligible, but no DSR/SSR offer made            | Ineligible for voluntary DSR/SSR       |
|--|---|---|--|--|
| <b>Ahead of MN or GDW</b>              | Any "Option" element paid in full. Recovered through SO Commodity charges.  | Record kept of customer's offer. Used to assess compensation in a "customer compensation PEC"* if a GDE is called resulting in the customer being disconnected (DSR) or called on to increase delivery (SSR). | No change from prevailing arrangements         | No change from prevailing arrangements |
| <b>After MN or GDW, but before GDE</b> | Any "Exercise" element paid if customer appropriately responds to an instruction. (Customer VoLL + 30 day average SAP) becomes SMPb until/unless higher priced action taken). | No change from prevailing arrangements.   | No change from prevailing arrangements         | No change from prevailing arrangements |
| <b>During and after GDE</b>            | Exercise fees paid in full for any contracted volumes interrupted by NEC.   | No change from prevailing arrangements.   | No change from prevailing arrangements.        | No change from prevailing arrangements |
| <b>Compensation entitlement</b>        | Payment in full of pre-agreed option and exercise payments. Exercise fees also payable if GDE 2+ called before voluntary DSR/SSR can be called.                               | Unaccepted offers assessed post emergency if customer interrupted (DSR) or instructed to increase delivery (SSR) – similar to PEC process for   | None - no change from prevailing arrangements. | No change from prevailing arrangements |

|  |  |                |  |  |
|--|--|----------------|--|--|
|  |  | long shippers. |  |  |
|--|--|----------------|--|--|

\*Customer compensation PEC will assess and automatically pay the bottom 80% of exercise fees only. The top 20% will be referred to Ofgem for assessment prior to payment (if accepted as valid) or rejected with no payment (if not accepted as valid).

### Contractual Arrangements and Communications

- National Grid will contract for DSR and SSR services through the registered shipper.
- Where National Grid issues an invitation to tender for DSR and SSR services, shippers and suppliers will use reasonable endeavours to bring this tender process to the attention of their customers and will offer reasonable assistance to customers in order to facilitate a response to National Grid's invitation.
- Where National Grid exercises its contractual right to access interruption pursuant to a voluntary DSR or SSR service, it will contact the end service provider directly but will notify the relevant shipper within 30 minutes of successfully instructing the customer. Similarly, NG will within 30 minutes notify the relevant shipper when the customer has been notified that their DSR /SSR service is no longer being exercised.
- It should be noted that this process does not preclude shippers/suppliers and customers from bilaterally agreeing voluntary DSR contracts.

### Operational Arrangements

- The right to interrupt a customer will carry equal weight as the right to take a gas buying action in order to balance the system, with actions being taken in accordance with an increasing price stack.
- It is further proposed that National Grid's linepack incentive is suspended once a MN or GDW has been issued. This will ensure there are no artificial barriers to maximising the use of linepack in order to prevent the onset of an emergency. It is recognised that this might require separate change to National Grid's Gas Transporter Licence.
- Where time permits, National Grid should aim to only call a GDE (and hence instigate involuntary DSR) once all voluntary DSR curtailment has been exhausted.