



# Modification 0844: Enabling Direct Contractual Arrangements with Consumers for Demand Side Response

4<sup>th</sup> May 2023



# Agenda

1. Summary of Modification
2. Workgroup schedule
3. Delivery Plan (0844 and 0845)
4. Panel questions
5. Contracting Process
6. Exercise and after the day

# 1. 0844 Summary

- NGT to issue an invitation to procure DSR from Class 1 consumers on an ‘option and exercise’ basis;
- Within-day, D-1 and D-5 products
- NGT obligation to notify the relevant Registered User of any DSR option that has been agreed between NGT and a Consumer,
- Standard conditions of contract to apply between NGT and each eligible Consumer whose option offer is accepted by NGT;
- NGT to exercise a DSR option provided by an eligible Consumer and issue an instruction to the Consumer to reduce or curtail the offtake of gas;
- Price and energy quantity of any within-day and D-1 exercised options to constitute an Eligible Balancing Action and to feed into calculation of system prices
- Arrangements whereby DSR option and exercise payments will be made directly to Consumers and for such costs to be funded by shippers via Balancing Neutrality arrangements.
- The following ‘process enhancements’ proposed in Mod 0845 shall apply:
  - ‘Reduce to’ regime
  - Ability for consumers to specify a maximum number of days of DSR exercise in a Winter Period
  - Product optionality

## 2. Workgroup Schedule

- Meeting 1: Overview of Modification, address Panel questions
- Meeting 2: Amended Modification, business rules, implementation issues, draft text
- Meeting 3: Review legal text and complete Workgroup Report

# 3. 0844 and 0845 Delivery Plan

| Process   |   | Key Dates    | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|---|---|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Regulatory Processes  | Raise UNC Mod (s)   | 05-Apr-23    | ★      |        |        |        |        |        |        |        |        |
|   | Panel consideration of UNC Request Report & New Mod(s)  | 20-Apr-23    | ★      |        |        |        |        |        |        |        |        |
|   | UNC Mod(s) Workgroup meetings   |              |        | ★      | ★      |        |        |        |        |        |        |
|   | Raise ROM   | 05-May-23    |        | ★      | ★      |        |        |        |        |        |        |
|   | Receive Xoserve response to ROM   | 19-May-23    |        | ★      |        |        |        |        |        |        |        |
|   | Change Management Committee   | 07-Jun-23    |        |        | ★      |        |        |        |        |        |        |
|   | Complete Workgroup Report for UNC Mod   | 01-Jun-23    |        |        | ★      |        |        |        |        |        |        |
|   | WG Report considered by Panel, Mod issued to consultation   | 15-Jun-23    |        |        | ★      |        |        |        |        |        |        |
|   | Mod consultation close out  | 06-Jul-23    |        |        |        | ★      |        |        |        |        |        |
|   | Final Mod Reports available for Panel   | 12-Jul-23    |        |        |        | ★      | ★      |        |        |        |        |
|   | Panel recommendation  | 20-Jul-23    |        |        |        | ★      | ★      |        |        |        |        |
|   | Ofgem decision  | 04-Aug-23    |        |        |        |        | ★      |        |        |        |        |
|   | Launch DSR Methodology consultation   | 15-Jun-23    |        |        | ★      |        |        |        |        |        |        |
|   | Close DSR Methodology Consultation  | 13-Jul-23    |        |        |        | ★      |        |        |        |        |        |
|   | Send Consultation Report to Ofgem   | 20-Jul-23    |        |        |        | ★      |        |        |        |        |        |
|   | Ofgem Approval of DSR Methodology   | 04-Aug-23    |        |        |        |        | ★      |        |        |        |        |
|   | Request Licence derogation to enable direct contracting   | 30-Jun-23    |        |        |        | ★      |        |        |        |        |        |
| Ofgem grant derogation  | 04-Aug-23   |              |        |        |        | ★      |        |        |        |        |        |
| Direct contracting terms and conditions                                 | develop draft contract  | 24-Apr-23    |        | →      |        |        |        |        |        |        |        |
|   | Issue consultation on contract terms to shippers, consumers, other interested parties                       | 15-Jun-23    |        |        | ★      |        |        |        |        |        |        |
|   | Close contract consultation   | 13-Jul-23    |        |        |        | ★      |        |        |        |        |        |
|   | Consider amendment of contract terms based on responses   | to 31 Jul-23 |        |        |        |        | →      |        |        |        |        |
|   | Publish standard conditions of contract   | 11-Aug-23    |        |        |        |        | ★      | ★      |        |        |        |
| Procurement event - direct contracting                                  | Pre-tender communication and timetable issued   | 16-Aug-23    |        |        |        |        | ★      | ★      |        |        |        |
|   | D-1 and Within Day options tender published   | 30-Aug-23    |        |        |        |        |        | ★      |        |        |        |
|   | Tender period (15 bus days)   |              |        |        |        |        |        | →      |        |        |        |
|   | Tender period closes  | 20-Sep-23    |        |        |        |        |        | ★      |        |        |        |
|   | Offer evaluation period (10 bus days)   |              |        |        |        |        |        | →      |        |        |        |
|   | Notify tendering shippers of outcomes and options effective (deadline if no Ofgem referral)*                | 04-Oct-23    |        |        |        |        |        |        | ★      |        |        |
|   | Notify wider industry of aggregate tender outcomes / shippers of their sites that have had options accepted | 11-Oct-23    |        |        |        |        |        |        | ★      |        |        |
| Direct Contracting DSR options effective (deadline with Ofgem referral) | 01-Nov-23   |              |        |        |        |        |        |        | ★      |        |        |
| Operational Processes   | Deploy exercise communication tool  | 30-Oct-23    |        |        |        |        |        |        | ★      |        |        |
|   | GNCC procedures   | 15-Oct-23    |        |        |        |        |        |        | ★      |        |        |
|   | Establish D-5 DSR locational market opening trigger with ICE  | 30-Sep-23    |        |        |        |        |        |        | ★      |        |        |
|   | Develop invoicing processes with CDSP   |              |        |        |        | →      |        |        |        |        |        |
| Shipper Options Tender  | Pre-tender communication and timetable issued   | 16-Aug-23    |        |        |        |        | ★      |        |        |        |        |
|   | D-1 and Within Day options tender published   | 30-Aug-23    |        |        |        |        |        | ★      |        |        |        |
|   | Tender period (15 bus days)   |              |        |        |        |        |        | →      |        |        |        |
|   | Tender period closes  | 20-Sep-23    |        |        |        |        |        | ★      |        |        |        |
|   | Offer evaluation period (10 bus days)   |              |        |        |        |        |        | →      |        |        |        |
|   | Notify tendering shippers of outcomes and options effective (deadline if no Ofgem referral)*                | 04-Oct-23    |        |        |        |        |        |        | ★      |        |        |
|   | Notify wider industry of aggregate tender outcomes  | 11-Oct-23    |        |        |        |        |        |        | ★      |        |        |
| D-1 and Within Day DSR options effective (deadline with Ofgem referral) | 01-Nov-23   |              |        |        |        |        |        |        | ★      |        |        |

\* Plus potentially a 10 day reference to Ofgem for >EXm options fees.

# 4. Panel Questions

1. Consideration of whether direct contracting is legally possible
2. Consideration of communication arrangements with GDNs (and Registered Users)

# Direct Contracting & The Gas Act

- Paragraph 5(c) of the [Gas Act](#) requires only licenced parties (i.e. shippers) to “arrange” with a transporter for gas to be taken out of a pipe-line system
- If NGT contracted directly with a consumer for DSR, the shipper would retain this role (booking capacity, paying transportation charges, receiving gas allocations etc)
- A NGT-consumer DSR contract would constitute an agreement by the consumer to alter its rate of offtake in certain circumstances but the transportation arrangements for delivery of that gas to the consumer remain with the shipper via the UNC
- NGT already contracts with non-shippers via NEAs and NExAs which contain provisions to help manage flow rates on and off the system
- By establishing a DSR contract with a consumer, NGT would not be taking on any functions of a shipper
- Legal advice has been sought and is published for this meeting



Gas Act 1986

## 5 <sup>F68</sup>[Prohibition on unlicensed activities]

- (1) Subject to section 6A below and Schedule 2A to this Act, a person who—
- (a) [<sup>F69</sup>otherwise than by means of a gas interconnector] conveys gas through pipes to any premises, or to a pipe-line system operated by a [<sup>F70</sup>gas transporter];
  - [<sup>F71</sup>(aa) participates in the operation of a gas interconnector;]
  - (b) supplies to any premises gas which has been conveyed to those premises through pipes; <sup>F72</sup>...
  - (c) arranges with a [<sup>F70</sup>gas transporter] for gas to be introduced into, conveyed by means of or taken out of a pipe-line system operated by that transporter<sup>[F73]</sup>; or
  - (d) provides a smart meter communication service,]
- shall be guilty of an offence unless he is authorised to do so by a licence.

Our conclusion: The Gas Act does not prevent NGT contracting directly with consumers for Gas DSR

# Direct Contracting and the NTS Licence

- A Licence change would be required to Special Condition 9.22

## Part A: The Demand Side Response Methodology

9.22.2 The licensee must have in place and maintain a Demand Side Response Methodology approved by the Authority.

9.22.3 The licensee must ensure that the Demand Side Response Methodology:

a) ensures that any party making a Demand Side Response Offer is a party to the Uniform Network Code;

- The NTS Licence also currently requires that the DSR Methodology...

d) demonstrates compatibility with existing market arrangements by setting out the manner in which **any Demand Side Response Offers accepted by the licensee are to be treated as Eligible Balancing Actions** and included in the System Clearing Contract, System Marginal Buy Price and System Marginal Sell Price;

Therefore, the DSR Methodology will require amendment to recognise exercise of within-day and D-1 options directly with consumers as ‘Eligible Balancing Actions’



# Direct Contracting: Notifications to Shippers and GDNs

## DSR Option

- We propose to notify GDNs and shippers of the identity of any consumers that have DSR options accepted
- Our preference would be to publish this information to industry rather than provide individual communications to GDNs and shippers (subject to a discussion with consumers)

## DSR Exercise

- Our operational procedure already provides for GDNs to be notified of any DSR exercise within their network
- We propose to place an obligation on the consumer that has a DSR Option accepted to promptly inform their Registered User in the event of DSR exercise

# 5. Direct Contracting – Contracting Process

- With which entity should NGT be contracting – site owner / site operator / agent?
- Options procurement tender consistent with shipper process timescales
  - annual frequency up to 3 years out
- Proposed DSR products – within-day, D-1, D-5
- Development of standard conditions of contract
  - Equivalent terms as far as possible to DSR options in UNC (as would be modified by Mod 0845)
  - Would include liability for failure to reduce demand if called
- Ofgem consent threshold for aggregate DSR options payments
  - Application to 2 tender events (shippers and direct with consumers)
  - Options:
    - Retain at £5m
    - Scale up based on approximate desired volume and 2022/23 tender option costs?
      - Weighted average price = 0.63 p/kWh for ~0.2 mcmd over a Winter Period = £2.4m
      - 5 mcmd would equal £60m, 4 mcmd would equal £48m, 3 mcmd = £36m

# Direct Contracting – Contracting Process

- Assessment Process
  - Assessment on the same basis as the shipper DSR options process at the same time\*
  - Validation to ensure that NGT does not accept a consumer's offer through both shipper and DC process
- Post tender publication of results equivalent to current DSR Options process in UNC

\*In UNC0845, NGT will propose that it should be afforded greater flexibility to assess DSR option offers beyond purely price considerations to cater for the additional offer parameters proposed in that Modification

# 6. Direct Contracting – Exercise and after the day

- **Exercise mechanism**
  - Consumers are not energy market participants, therefore exercise cannot be executed as an ‘energy trade’
  - Need to develop a communication mechanism to enable NGT to notify consumers holding directly contracted DSR of exercise and record such notification
  - NGT (GNCC) would need to be able to assess any DSR offers from shippers alongside those that may be exercised directly with a consumer
- **Energy balancing impacts**
  - NGT considers that the volume and price of any within-day and D-1 exercised options should feed into the calculation of cashout prices but not D-5 options
  - Envisage a process akin to that for ‘over-the-counter’ trades to achieve this
- **Validation of demand reduction**
  - Validation in a ‘reduce to’ regime would be done at D+6 (post exit close out)
  - NGT can access Gemini to view the relevant consumer’s allocations
  - If the demand reduction requirement has not been met, the exercise payment will not be made
    - Post winter assessment - consumer liable for 110% of the option payment, scaled to number of instances as per UNC rules for shipper DSR options

# Direct Contracting – Exercise and after the day

- **Invoicing processes**
  - **Option payments** to non-UNC parties
    - CDSP activity
    - Monthly instalments over the Winter Period (as current UNC process for shipper held DSR options)
  - **Exercise payments**
    - NGT notifies consumer of exercise
    - NGT validation of demand reduction post D+5
    - NGT settlement with the consumer proposed at M+20, consistent with NBP 2015 terms
      - Allows batching of days of exercise for month M into one credit invoice and time to process from exit close out)
    - Propose that the CDSP settles exercise costs from balancing neutrality, following NGT notification to CDSP of all DSR exercise shortly after month end
    - CDSP includes DSR exercise costs within EBIs for that month
- **Liability** payment for failure to reduce demand if the option is exercised
  - NGT determine post winter, propose CDSP role to invoice to credit balancing neutrality and chase for any late payment.
  - If remains unpaid, NGT would have the right to terminate the contract
- **Credit checks** are not envisaged to be required as usual process is for consumers to receive not make payment

