Gas
Transmission

Gas DSR Update

Transmission Workgroup

4th August 2022

nationalgrid

Gas DSR Industry Engagement

To date, we have held three industry meetings on the topic of Gas DSR

- 2 UNC Workgroups (14th and 18th July)
- 1 meeting with industrial manufacturing associations (15th July)

We have sought views on

- Our ‘**problem statement**’ that little or no DSR volumes would be available to us this winter without an additional market stimulus
- Current **barriers to participation**
- Industrial sites’ **response capability**
- Issues that would need to be resolved to introduce **option/availability payments**

What we've heard from large industrial sectors

'Availability / option' payments would help but there are other issues…

Alternative fuels

- Most sites don't have back-up fuel
- Some are mothballed and couldn't come back on line until post winter
- For those that could switch to diesel, concern that its use to enable voluntary gas DSR would breach MPCD / environmental permits agreed with local authorities, hence derogations may be needed

Price

- DSR offer prices could be attractive where sites can fuel-switch, expected to be materially higher if interruption to manufacturing would be required

Lead-time

- The greater the notice period NGG can give for demand curtailment being required, the greater the level of participation
- 2-3 days notice or pre-defined hours / days in the winter period has been indicated whereas current DSR is required within day

What we've heard from UNC Workgroups

Broad support for DSR reform in principle but many unanswered questions remain on the issues we've raised

- Identify and implement any 'quick wins' for this winter
- Longer term solutions can follow

Option payments for DSR that remain un-exercised would be preferable to a GDE

Acceptance of DSR offers before the day to accommodate consumers' lead-time requirements challenges NGG role as 'residual balancer' in the market and potentially our obligations to act economically and efficiently

Reforms need to be driven by what consumers can deliver

Mixed views on exclusion of power generation sector

- Openness to all potential providers vs avoid taking generation off at times of gas system stress

Current Value of Lost Load (VoLL) £14/th for domestic consumers may no longer reflect the current market but this does not act as a cap on the cashout price

Alternative Solutions Suggested

Alternative Solution	NGG Initial Response
Re-introduction of interruptible transportation	• Expect unachievable for this winter • Lead-time required for consumers to re-invest in back-up fuel switching capability
Bilateral DSR arrangements with largest [20] I&C sites, instead of an invitation to offer	• Bespoke arrangements would take longer to agree • Inconsistent with Licence obligation to seek DSR offers through open and transparent market arrangements
Option payments for supply turn-up as well as demand side	• Supply side stimulus is not required in the same way (the nature of upstream parties' business is to maximise gas supply to market whereas industrial plants are focused on manufacturing goods)

Option Payments: Overview of the Issues

Principles
- Economic justification
- Risk perception
- Structure and determination
- Licence principles

Commercial
- What is the payment for?
- Who sets the option price?
- Funding
- Obligations and liabilities
- Eligibility

Process
- Consumer turndown capability
- NGG invitation to offer
- Transparency and reporting

Distills to: what quantity should we contract for, how much should we spend and what can consumers actually deliver?

DSR Reform: Initial Proposals

Issue	Initial Proposal
Trigger to open DSR market	Change from GBN to if NGG forecast demand > expected available supply on any day up to [D-5 / D-7]
Trigger to close DSR market	Either GDE stage 2 declared or once no days up to [D-5 / D-7] show forecast demand > expected available supply
Who sets the option price	Shipper sets both option and exercise (unit prices in p/kWh)
NGG invitation to offer	Shipper submits (per site) offered quantity, option price, exercise price, lead-time to turndown
NGG assessment of offers	Acceptance in aggregate price order, weighted according to lead-time to turndown, subject to a pre-defined aggregate materiality cap on option payments (potentially determined based on indicative payments that sites would require)
Option price funding	From Balancing Neutrality, option fees paid to relevant shippers and recovered from all other shippers each month over the winter period
Eligibility	Open to all sites with AQ > 2m therms pa via their shipper. (NGG expectation that industrial sites would offer more competitive prices than power generation because of potentially high failure to generate penalties in the electricity market)

DSR Reform: Initial Proposals

Issue	Initial Proposal
Shipper obligations post NGG 'invitation to offer' process	• Shipper obliged to post a DSR offer on the OCM equal to its accepted quantity and lead-time within [x] hours of DSR market opening • If a site is offtaking less than the offered quantity on the day, offer may be re-set equal to prevailing nomination. • If site ceases trading, shipper obligation to inform NGG and future option payments cease • If a site changes shipper, original shipper to either notify NGG that contract is no longer in force and option payments cease or confirm DSR contract novation to the new shipper
NGG exercise	NGG may accept a DSR offer at any time for any offered contract period when the DSR market is open
Shipper liability for failure to re-nominate	Physical Renomination Incentive charge + accepted offer quantity @ SMP buy

Next steps

Further industrial sector-specific engagement / consumer level survey – key questions

- What are the barriers to you reducing gas usage?
- How much notice would you need to reduce gas usage?
- What volume could you reduce your gas usage by without impacting your manufacturing output?
- What level of payment would you need to consider reducing gas usage?

Develop draft UNC modification proposal