

Representation – Draft Modification Report UNC 0866S Amendments to Demand Side Response (DSR) Arrangements

Responses invited by: 5pm on 03 May 2024

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

| | |
|-------------------------------------------------|----------------------------|
| Representative: | Phil Hobbins |
| Organisation: | National Gas Transmission |
| Date of Representation: | 02 May 2024 |
| Support or oppose implementation? | Support |
| Relevant Objective: | a) Positive b) Positive |
| Relevant Charging Methodology Objective: | Not Applicable |

Reason for support

This Modification 0866 is the result of a programme of extensive industry engagement by NGT in a continuing quest to maximise voluntary gas DSR quantities, not only with shippers through UNC Request 0835R but also in parallel with industrial consumers and their associations. There have been a few points of disagreement between consumers and shippers during the development of Mod 0866 but we have adapted the proposals accordingly and now hope that the draft Modification Report presents a reasonable compromise on those issues that all can support.

Governance Statement:

We support self-governance for this Modification because we do not believe that its implementation would create a material effect in respect of any of the self-governance criteria. We expand on our reasoning in our answers to the Panel questions below.

Impacts and Costs:

We would need to amend the DSR Options tender process and documents in time to launch this year's tender in July, conduct subsequent consultations on the DSR Methodology and DSR Consumer Contract, agree amended processes with the CDSP and amend the control room DSR procedure.

Implementation:

NGT agrees with the implementation section in the draft Modification Report.

Legal Text:

Yes, NGT has provided the legal text which has been reviewed by the Workgroup.

Panel Questions: *Panel Members have requested that the following questions are addressed.*

Panel identified four aspects which may affect the suitability for self-governance:

Q1. In light of the proposed change in treatment to the bid-stack (BR 4), do you consider that this Modification is suitable for Self-Governance procedures? Can you provide evidence relating to materiality?

Business Rule 4 represents an extension of our existing assessment criteria and is thus an incremental change, not one which would qualify as a 'material effect' under the self-governance guidance. The existing UNC text affords flexibility to take other factors into consideration in addition to price when deciding whether to accept or reject DSR Option Offers; these include whether a tenderer has specified a Maximum Exercise Period, a Minimum Exercise Interval and the DSR product that is being offered. BR4 proposes to extend this flexibility to enable consideration the relative value of offers against one another based on quantity and option / exercise prices as well as combined price, so that best value can be derived for the industry.

Q2. Given the extension to Class 2 (BR 17), do you consider that this Modification is suitable for Self-Governance procedures? Can you provide evidence relating to materiality?

Business Rule 17 extends the ability for sites to contract directly with NGT for DSR from Class 1 only to also include Class 2, meaning that hundreds more sites would become eligible to participate in this way. If participation reached into the hundreds, we would need to devise a new method of exercise (the current individual phone call and email performed by GNCC staff would likely not be feasible) and, as noted in the Central Systems Impacts section of the draft Modification Report, we would also need to engage with the CDSP to explore an alternative means of making option fee payments. However, these risks exist even without Modification 0866 as there are hundreds of sites in the class 1 category but they are process risks; neither of which qualify, in our view, as sufficiently material in the context of the self-governance guidance to warrant Authority Direction.

Q3. Given the change in credit support (see BR 18), do you consider that this Modification is suitable for Self-Governance procedures? Can you provide evidence relating to materiality?

If a Consumer fails the credit check and does not wish to put credit in place to support its DSR Option, Business Rule 18 provides an alternative option for that Consumer to receive its option fee as a lump sum post-winter rather than in monthly instalments. This eliminates any credit risk to shippers associated with the Consumer failing to deliver DSR, if called. It is an alternative approach to achieve the same objective and therefore do not see how this change could be deemed sufficiently material to warrant Authority Direction.

Q4. In light of the approach taken to Modification 0852, do you consider that this

Modification is suitable for Self-Governance procedures? Can you provide evidence relating to materiality?

We recognise that there is a parallel between Modification 0852 and Modification 0866, insofar as both Modifications could increase the workload of the Gas National Control Centre (GNCC) at a time of already high operational stress¹ (since the prospect of a Network Gas Supply Emergency would, by definition, be a possibility). We considered that 0852 was suitable for Authority Direction partly because the additional administrative activity of shipper notification could detract from the GNCC's primary focus of managing the supply/demand imbalance, but also, more fundamentally, that 0852 would result in a misalignment of obligations and weaken incentives on shippers to have appropriate communication arrangements in place with the sites to whom they ship gas. Modification 0852, had it been approved, could therefore have had a material effect on commercial activities related to the shipping of gas and complexity of processes, as well as gas security of supply.

As mentioned previously in this representation, Modification 0866 increases the potential number of sites that could participate, but it does not create any new requirements when DSR is exercised. Even without Modification 0866, there is potential for a sufficiently large number of Consumers to respond to the tender and be allocated DSR Options, which causes the current exercise arrangements to become unmanageable.

We therefore do not believe that it must follow for Modification 0866 to be determined as Authority Direction just because this governance route was determined for Modification 0852.

Error or Omissions: Are there any errors or omissions in this Modification Report that you think should be taken into account?

No, although the Workgroup discussions for Modification 0866 have had to progress rapidly, we believe that all issues have had sufficient discussion.

Additional analysis: Please provide below any analysis or information to support your representation.

N/A.

¹ We note however that Ofgem has rejected 0852.