

**UNC Demand Side Response Minutes**  
**Wednesday 13 August 2014**  
**31 Homer Road, Solihull B91 3LT**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Andrew McDermott	(AMc)	British Ceramic Confederation
Audrey Nugent	(AN)	Chemical Industries Association
Charles Ruffell	(CR)	RWE
Claire Thorneywork	(CT)	National Grid NTS
Darren Lond	(DL)	National Grid NTS
David Mitchell	(DM)	Scotia Gas Networks
Egbert-Jan Schutte-Hiemstra*	(EJSH)	ICE Endex
Gareth Davies	(GD)	Statoil UK Ltd
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JC)	SSE
Julie Cox	(JC)	Energy UK
Ian Hollington	(IH)	Joint Office
Laura Mason	(LM)	National Grid NTS
Richard Fairholme	(RF)	E.ON UK
David McCrone*	(DM)	Ofgem

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dsr/130814>

**1. Review of Minutes and Actions****1.1. Minutes**

Approved

**1.2. Actions**

**0701:** National Grid NTS to consider the design on the OCM “tick down rate” process.

**Update:** DL confirmed that there is functionality in the OCM that would allow a “tick down rate” to reduce by the hour, if this is a solution required. AM enquired about the ability to ramp back up. DL explained that this would be an end of day product and parties would need to consider the structure of the offer. Some concern was expressed about a flat “tick down rate” and that an inconsistent approach may not be suitable. DL clarified there are some complexities that need to be considered by the Workgroup but in terms of functionality the “tick down rate” is already built into the OCM. **Complete**

**0702:** National Grid NTS to consider the management of payments if a bid is taken when Stage 2 is enacted, and build the strawman to reflect what parties get paid (i.e Stage 2 or current bid).

**Update:** CT believed the Workgroup presentation provided should conclude this action. She explained that National Grid do not accept bids once Stage 2 is reached. The presentation explained how the design of the product is proposed to work when a bid is accepted in Stage 1. AM wished to have a clear map out of what parties can and cannot do through the stages. **Complete**

## 2. **Modification 0504 - Development of a Demand Side Response Methodology for use after a Gas Deficit Warning**

CT provided details of the free text and email subscription service for the Gas Deficit Warnings: *To sign up for either of these services please register by using the link below:* <http://nationalgrid.us6.list-manage.com/subscribe?u=4674811e1f&id=05fb0ffd09>.

CT provided a [presentation](#) for the proceedings of Workgroup 2 and a summary of what is scheduled for future discussions.

### 2.1. **Option Fees (I6)**

CT provided a background to the DSR mechanism and the inclusion of Option Fees. She confirmed initially the merits of developing a tender auction based DSR mechanism and the inclusion of option fees were explored and that Pöyry were commissioned to carry out a cost/benefit analysis and viability of Option Fees for each suggested DSR mechanism.

CT provided a summary of the 3 considered mechanisms including the use of Option Fees. Pöyry findings concluded that including Option Fees produced net costs within each scenario, the costs incurred for services that had a very low probability of being exercised. Pöyry suggested it would be difficult to justify Option Fees.

CT outlined the benefits of Option Fees against the cons and acknowledged Option Fees would encourage additional volumes of DSR being made available, however it may lead to inappropriate costs being passed onto consumers as they are not expected to be enacted on a regular basis.

CT acknowledged Eddie Proffit's request for Option Fees to be considered compared to DN interruption. CT explained the product for DN interruption are much likely to be utilised and would involve complete interruption. CT explained that the nature of this product is very different to DN interruption and the likelihood of it being used has a much lower probability.

JC believed that Option Fees would be desirable but accepted that the economics of including Option Fees don't add up.

GJ enquired if there would be a number of customers that wouldn't use the mechanism without Option Fees. AM believed that the use of Option Fees would encourage participation. The Workgroup discussed the likelihood use of the mechanism based on the availability of Option Fees and previous studies undertaken for full interruption.

CT was keen for the Workgroup to consider Eddie Proffit's points relating to Option Fees. However, having considered the DSR principles and relevant objectives she believed that Option Fees would not be consistent with these. DL believed it was important for parties to understand the split of demand interruption, DSR and "super firm" load shedding. He explained that a survey would be undertaken to assess the likelihood use of service.

National Grid NTS concluded that Option Fees should not be included because inappropriate costs would be passed to consumers, due to the low likelihood events requiring their enactment; would prevent a competitive DSR market becoming established; and would extend National Grid's role beyond what is required to provide a route to market for DM customers.

**Action 0801: National Grid NTS to consider whether to revise the wording of the survey to help understand what interest is likely to be in the proposed Exercise only DSR mechanism, and what influence Option fees may have on volumes being offered by participants.**

CR suggested that the first iteration of the product may not include Option Fees but this might require further consideration in the future.

The Workgroup considered the benefits of a survey at this stage. National Grid NTS was keen to establish an expression of interest through a survey and compare this with the volume believed to be available, to assess viability. JC believed that the Shipper interface

issues need to be understood and to have a fuller position on the mechanism before a survey is undertaken to ensure it is meaningful.

## **2.2. Eligibility Rules (KA & I2)**

DL summarised the licence principles and Ofgem's final policy decision, which the DSR mechanism needs to meet. DL suggested based on the eligibility for participation the Workgroup need to look at the options to exclude gas fired generation from the methodology. The Workgroup considered how this might be achieved without undue discrimination.

It was agreed to reassess the eligibility rules once the final product design is concluded.

## **2.3. Timescales of Service -process flow- interactions between three parties (KA3)**

CT provided a draft process flow to illustrate the provision and acceptance of bids/offers.

The Workgroup considered if payments should be made if Stage 1 is declared or continue to paid until Firm load Shedding. RF asked how the offer withdrawal process would operate.

The use of margin notices were considered and the freezing of bids.

CT explained the Workgroup would need to consider/discuss the Transparency of offers, how visible these are to the industry, when they would be viewable and the whether the detail of the offer should provide the volume but not the price.

## **2.4. DSR Offer posting and Acceptance processes (KA5)**

CT summarised the licence conditions that need to be considered whilst developing the DSR methodology. The Workgroup considered the process for posting, accepting, revision of offers along with the required notifications.

JC enquired what the standard set of rules/performance would be around facilitating the offer and how these would be measured/monitored against physical delivery. JC enquired if these would be outlined so the Workgroup could consider what ought to be included.

AM believed initially it would be useful to have a standard set of rules but balanced against keeping the posting and accepting of offers simple not to discourage participation.

There was a preference to freezing the DSR Offer at GDW.

The Workgroup discussed pricing the mechanism. JC suggested an illustration might be useful on the interactions and considerations. Notifications were considered further and what the contractual arrangements would be. The use of a cap was discussed, the duration of the call-offs and the impacts to other areas.

The Workgroup considered if the duration a DSR trade should be exercised by using a Daily mechanism, Multi Day mechanism or an Off until instructed on product. The interactions/stages pros and cons were discussed. The use of a cap was also discussed, the duration of the call-offs and the impacts to other areas.

It was agreed a number of issues needed to be logged and considered further relating to pricing, notifications, contractual arrangements, freezing DSR offers at GDW and multi-day consequences. DL believed these should be considered in the survey.

No preference was expressed on the Day, Multi-day or Off until instructed on, products. Parties were asked to consider the three possible products further and provide a view on any preference to allow National Grid NTS to consider the business rules.

**Action 0802: Parties to consider the three possible Day, Multi-day or Off until instructed on products further and provide National Grid NTS with a view on any preference.**

The Workgroup agreed to work on the basis of a frozen DSR offer at GDW for all three possible products.

The Workgroup considered the DSR Service Fees and how to bring customers back on ie a notice of restoration. The duration of payment for the DSR trade and the DSR Offer prices for each approach was reviewed.

### 3. Next Steps

National Grid NTS would seek to discuss Option Fees offline with MEUC and to provide a response to their email highlighting their concerns.

The Workgroup briefly reconsidered the Option Fees and affording the opportunity for the MEUC to recap their concerns and to provide any evidence.

It was agreed that the DSR expressions of interest Feedback Survey would aim to be published to End Consumers in October and the volumetric analysis would be considered September.

The main agenda items for the next meeting will be:

- Volumetric analysis
- (KA4 & I3) - Contractual Arrangements - (KA6) Service Fees – duration DSR offer price applies
- (K9) – Payment, Cost, liabilities for failing to interrupt
- (KA8) Payment and settlement arrangements – including timescale between three parties

### 4. Any Other Business

Any further views/issues/concerns please contact:

Claire.l.thorneywork@nationalgrid.com Tel: 01926 656383: or

Darren.lond@nationalgrid.com Tel: 01926 653493

### 5. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Wednesday 10 September 2014	31 Homer Road, Solihull, B91 3LT	(KA4 & I3) Contractual Arrangements (KA6) Service Fees – pricing offer  (K9) Payment, Cost, liabilities for failing to interrupt  (KA8) Payment and settlement arrangements – including timescale between three parties  Volumetrics
10:30 Monday 13 October 2014	31 Homer Road, Solihull, B91 3LT	(I4) DSR Trial (I5) OCM Platform  Review of Expression of Interest Survey
10:30 Tuesday 11 November 2014	31 Homer Road, Solihull, B91 3LT	(KA7) DSR offer price feed into Cashout  Review Draft Methodology and Business Rules
10:30 Wednesday 10 December 2014	31 Homer Road, Solihull, B91 3LT	Outstanding issues  Review and sign off Workgroup Report

## Key Issues identified by the Industry

I1	DSR product	Turn down to / Turn down by
I2	Eligibility rules	Gas Fired Generation eligibility and interaction with Electricity Market Reform
I3	Contractual Relationships	Define contractual arrangements between Shipper/Supplier and end consumers facilitating transactions, contractual relationships, liabilities and how contracts should be reported on under existing regulatory requirements
I4	DSR Trial	Define trial success criteria, volumetrics will need to be established to ensure viability of mechanism
I5	OCM platform	Need to understand the costs associated with OCM development and implementation
I6	Option Fees	

Resolution of these Issues must be compliant with the key principles set out the DSR Licence Condition

## Key Areas of the DSR Methodology

KA1.	Eligibility rules for Participation in the DSR Tender Process
KA2.	Definition of DSR product and service
KA3.	Timescales of the DSR service
KA4.	DSR Process - contractual arrangements
KA5.	DSR Mechanism submission process and operational arrangements: <ul style="list-style-type: none"> <li>- DSR Offer posting process</li> <li>- DSR Offer acceptance process</li> </ul>
KA6.	DSR Service Fees
KA7.	DSR offer price feed into daily Cashout price
KA8.	Payment and Settlement arrangements; <ul style="list-style-type: none"> <li>- Pre Stage 2</li> <li>- Post Stage 2 (including settlement process for DSR offers not that were not accepted through the DSR mechanism)</li> </ul>
KA9.	Payments, Costs, Expenses and Liabilities for failing to interrupt

Development of key areas must comply with key principles set out the DSR Licence Condition

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**Action Table**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
<b>0701</b>	02/07/14	2.2	National Grid NTS to consider the design on the OCM “tick down rate” process.	National Grid NTS (CT)	<b>Complete</b>
<b>0702</b>	02/07/14	2.2	National Grid NTS to consider the management of payments if a bid is taken when Stage 2 is enacted, and build the strawman to reflect what parties get paid (i.e Stage 2 or current bid).	National Grid NTS (CT)	<b>Complete</b>
<b>0801</b>	13/08/14	2.2	National Grid NTS to consider whether to revise the wording of the survey to help understand what interest is likely to be in the proposed Exercise only DSR mechanism, and what influence Option fees may have on volumes being offered by participants.	National Grid NTS (CT)	<b>Pending</b>
<b>0801</b>	13/08/14	2.4	Parties to consider the three possible Day, Multi-day or Off until instructed on products further and provide National Grid NTS with a view on any preference.	All	<b>Pending</b>