Gas
Transmission

Gas Demand Side Response (DSR)

Transmission Workgroup
7th July 2022

nationalgrid

Gas DSR - Recap

Gas DSR enables consumers to offer to reduce their demand via their shipper/supplier during the build up to a gas emergency, in return for a payment which they define

- Introduced in 2016, during times of insufficient gas supply, the use of gas DSR could reduce the likelihood, severity and duration of a gas deficit emergency
- Intended to provide a ‘route to market’ for large consumers to receive greater financial compensation by voluntarily curtailing demand ahead of an emergency than if they were involuntarily curtailed in an emergency.
- Envisaged to be more suitable for large industrial and commercial sites rather than power generation
- Shippers may place offers to sell gas volumes on the OCM DSR market which NGG may accept after a Gas Balancing Notification has been issued prior to declaration of a Stage 2 emergency
- ‘Exercise’ payments only apply

Winter Preparedness

As part of our winter preparations, we have been considering the tools available to support the supply/demand position if a Gas Balancing Notification is issued and the likelihood of gas DSR offers being available

- **Only one GBN has ever been issued (BftE 2018) and no DSR offers were received**
- **UNC0806 Workgroup discussions have indicated there may be little take-up of DSR among shippers/suppliers/consumers**

NGG perception that Gas DSR is currently commercially unattractive for shippers/suppliers/consumers and that little or no DSR volume would be available

Stakeholder Views

Initial bilateral engagement with large I&C market participants confirmed this perception

Feedback was that DSR contracts are not currently in place between shippers/suppliers and end consumers because…

- Transition to ‘universal firm’ led to consumer assumption that their gas supply would always be available
- NGG winter outlook publications have tended to reinforce the view that gas will be available
- Removal / lack of investment in back-up fuel sources due to cost and emissions
- NGG does not contract directly with consumers and shippers / suppliers have little incentive to market the DSR product
- Cost and effort for consumers to put DSR contracts, procedures, training in place with low likelihood of use
- No option payments apply, only exercise

…therefore if demand curtailment is required, it is currently expected to be involuntary via the emergency procedures

Potential DSR Volumes

Our initial analysis suggests a substantial potential market:

- **GDN connected industrial demand > 2mth/pa:**
  - ~31 mcmd (based on SOQ)
- **NTS connected industrial demand:**
  - ~13 mcmd based on max daily flow between April 2021 and March 2022
  - ~6 mcmd based on daily average flows during Winter 2021/22

We therefore wish to explore what would be required to stimulate this market for this Winter, in particular the introduction of option payments which has been a consistent theme in feedback so far

Stakeholder Engagement

We are planning a ‘twin-track’ engagement approach with large industrial consumers and their associated shippers/suppliers and UNC parties

- **Consumers and shippers/suppliers:**
  - **Better understand the current blockers to DSR**
  - **Identify what changes to the current rules would be needed to stimulate participation**
- **UNC parties:**
  - **Discuss the issues associated with introduction of option payments**
  - **Develop a UNC Modification**
    - **Urgent procedures would be needed to enable implementation this Winter**

UNC Stakeholder Engagement

We propose two extra (virtual) Transmission Workgroup meetings in July to discuss the issues associated with introducing DSR option payments

Meeting 1

Topics: Expected timescales, the case for options payments, their purpose, setting the option price, funding arrangements, offer eligibility

Meeting 2

Topics: NG invitation to offer process, obligations and liabilities, transparency and reporting, conclusions and next steps