



DSR Modifications

Proposed Approach

6th April 2023



0835R Discussions to date

- The purpose of 0835R was to discuss potential further reforms that could increase the DSR quantities available to NGT in the event of a national supply shortage
- Our expectation was that we would need to prioritise what is deliverable for next winter
- Workstreams considered:
 - NGT contracting directly with consumers
 - Longer lead-time DSR product
 - Eligibility and aggregation
 - Review of Modifications 0822 and 0833
- These topic areas have been discussed with industry at 0835R meetings on 02 March, 23 March and with industrial consumers on 20 March
- Based on feedback from these meetings, we have now decided on the topics we propose to progress for Winter 2023/24 implementation and those we propose to develop on a longer timeframe
- The following slides provide our reflections on each workstream

1. Contracting directly with consumers

Stakeholder views

- Strong support from chemicals and steel sectors
- Reduces shipper risks but could still require out-of-hours processes
- Offer it in addition to the shipper process
- Focus on larger sites with 24/7 control rooms

Outstanding Issues

- Products – Within-day, D-1 and D-5?
- Means of exercise – not an ‘energy trade’
- Risk of having to call large number of sites to exercise
- Invoicing process
- Means of feeding exercise costs into SAP/SMP

NGT views

- No legal barriers identified
- Could deliver material additional DSR volumes
- Enabler for aggregation
- Resource intensive

Deliverable for 2023/24?

- Licence change required
- Contract development, consultation process, implementation, procurement event and assessment process all need to be completed

2. D-5 Product

Stakeholder views

- Certain sectors, especially chemicals, are very supportive
- Expect implementation to result in greater DSR volumes

NGT views

- No legal barriers identified
- Less likely to exercise
- Potential impact on balancing incentives
- Consistency with DSR Licence obligation to “minimise distortions and unintended consequences on existing market arrangements”

Outstanding Issues

- MIFID compliance
- Execution mechanism – OCM?
- Improvements to D-5 Margins Notice forecast process

Deliverable for 2023/24?

- Mod already drafted
- Licence change required
- Could be included within WD and D-1 options tender

3. Eligibility and Aggregation

Stakeholder views

- Reform would enable some sectors to participate that are currently prevented e.g. ceramics
- 2m therms pa threshold is too high, especially given that the threshold for interruptible status used to be 200,000 therms pa

Outstanding Issues

- Confirm any class 2 site can function as a locational trade point on the OCM
- Confirm ICE can implement points on the OCM for aggregators to trade against
- Develop aggregation model(s)
- May require ability of NGT to contract outside UNC

NGT views

- Daily metered status is the key requirement to be able to monitor compliance with an exercise instruction, therefore class 2 could be eligible
- Reduction in the 100,000 kWh minimum offer size would dilute DSR value given NTS volumes
- Delivering aggregation may require new market entrants

Deliverable for 2023/24?

- Licence change required to permit non-shippers to submit DSR offers
- Enabling non-shipper aggregators may not be deliverable
 - Who are they, how does UNC interact, notification of exercise, invoicing arrangements

Review of Mod 0822

Stakeholder views

- Some consumer support to change from a 'reduce by' to a 'reduce to' regime
- Support to retain the current annual process with 3 year duration
- Consumers' risk could be limited by the ability to specify a maximum number of instances of exercise in a Winter Period

Outstanding Issues

- How to determine the 'starting position' for a 'reduce to' scheme

NGT views

- Amendments required to shipper obligations if DSR is exercised pursuant to an option
- Ability to consider option offers based on option cost v exercise cost as well as aggregate price would be useful

Deliverable for 2023/24?

- UNC and DSR methodology changes needed
- Need to review assessment process
- NGT operational process changes

What to deliver when? NGT current view

2023/24

- Direct contracting with class 1 consumers only for WD, D-1 and D-5 options
- Add a D-5 product to the WD and D-1 shipper options tender process defined in UNC
- Enable all class 1, class 2 to be eligible for DSR via shipper options tender process
- Mod 0822 process enhancements
 - 'Reduce to' scheme to replace 'reduce by'
 - Enable tenderers to specify max frequency of exercise
 - Enable NGT assessment process to include option and exercise cost separately
 - Clarify shipper obligations when DSR exercised

To be further explored for 2024/25

- 24 hour DSR rather than constrained to a gas day
- Aggregation
- NDM DSR

Proposed Next Steps

- Raise 3 UNC Mods, targeted for 2023/24 implementation:
 1. Enable NGT-consumer contracting for class 1 sites for within day, D-1 and D-5 DSR products
 2. Introduce a D-5 product into the existing UNC arrangements
 3. Make process enhancements to the 0822 rules and expand eligibility to class 2 sites
- Submit these 3 Modifications to the April Panel
- Pause 0835R until Autumn 2023, at which point development work on the 2024/25 issues can be recommenced

High Level Plan

Process		Key Dates	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
DSR Reform Programme	Formulate workstreams for industry discussion		→											
	Publish draft UNC Request Proposal	25-Jan-23	★											
	Meeting with large consumers & associations	30-Jan-23	★											
	Pre-mod discussion of draft request and overall DSR plan for 2023	02-Feb-23	★											
	Raise UNC Request	03-Feb-23	★											
	UNC Panel Meeting consider UNC Request proposal	16-Feb-23		★										
	UNC Request Workgroup meetings				★	★	★							
	Develop draft Mod Proposal(s)					→								
	Finalise UNC Request Workgroup Report, inc draft Mod(s) and submit to Panel	06-Apr-23					★							
	Raise UNC Mod (s)	05-Apr-23					★							
	Panel consideration of UNC Request Report & New Mod(s)	20-Apr-23					★							
	UNC Mod(s) Workgroup meetings							★	★	★				
	Complete Workgroup Reports for UNC Mod(s)	01-Jun-23							★					
	WG Report(s) considered by Panel, Mod(s) issued to consultation	15-Jun-23								★				
	Mod(s) consultation close out	06-Jul-23								★				
	Final Mod Reports available for Panel	12-Jul-23								★				
	Panel decision(s) / recommendation(s)	20-Jul-23								★				
	Ofgem decision(s)	04-Aug-23									★			
	Licence changes e.g. to enable direct contracting and permit MN trigger											→		
	Mod(s) Implementation activities												→	
Launch DSR Methodology consultation	08-Aug-23									★				
Close DSR Methodology Consultation	05-Sep-23										★			
Send Consultation Report to Ofgem	11-Sep-23											★		
Ofgem Approval of DSR Methodology	25-Sep-23												★	
DSR volumes available	01-Nov-23													→
Second D-1 and WD 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 >£5m options fees.														