

Gas
Transmission

Option Payments for Gas Demand Side Response (DSR)

Transmission Workgroup
18th July 2022

nationalgrid



Topics for this Session

National Grid invitation to offer

- Process and structure

Obligations and liabilities

Transparency and reporting

Next steps

DSR Invitation to Offer

We are contemplating a DSR ‘invitation to offer’ process, similar to that which we run for Operating Margins services

The invitation would be issued to shippers who would commit to post DSR offers on the OCM to voluntarily curtail offtake to National Grid on behalf of their consumers

Those shippers which have offers accepted by National Grid would then receive an option payment equal to the value of the offer made

Contractual arrangements between shipper-supplier-consumer would be needed to ensure that the payment would then be passed on the consumer

DSR Invitation to Offer: Draft High Level Process

National Grid would have a UNC obligation to issue the invitation ahead of each winter

- The first such invitation may need to be within winter

Issued to all UNC shippers

Shippers have a [15] business day window to consult with their eligible consumers and decide whether they wish to make any offers

Shipper submits offers to National Grid on behalf of its consumer(s)

National Grid assessment of offers received within [10] business days from closure of the window

Option payments made to the relevant shipper(s) for accepted offer(s)

We envisage the UNC forming the contract between NGG and the shipper

Obligations

The purpose of the option price would be to guarantee that a DSR offer would be posted onto the OCM DSR locational market

What would an accepted offer commit the shipper and consumer to do?

- Create an obligation on the shipper to post a DSR offer onto the OCM within [x] days
 - Energy value equal to the accepted quantity
 - Should the price for 'exercise' also be fixed when the option price offer is submitted or should the shipper be able to determine this separately?
 - Our initial view is to fix at the time of the offer to judge whether the offer has a realistic prospect of acceptance if required. Options could be
 - Indexed e.g. day-ahead index + [x%] or SMP buy – [x] p/therm
 - Fixed based on assessment of opportunity cost of lost production/generation
 - Should a cap apply on the exercise price and if so how could this be determined?

DSR Invitation to Offer: Draft Proforma

Shipper	Consumer	DSR quantity offered (kWh/d)	Option Offer Price (p/kWh)	Exercise offer price (p/kWh or indexed)

We currently consider it unlikely that a maximum number of days would be specified for exercise given the limited time period within which National Grid may accept DSR offers

Obligations cont'd

Would the DSR obligation be deemed fulfilled if the consumer was offtaking less gas than the quantity for which it had been paid the option price?

Minimisation of system demand is the outcome we would be seeking post issue of a GBN, therefore we would want the consumer to be incentivised not to turn up

The exercise quantity could therefore be equal to the lower of:

- The accepted quantity from the invitation to offer
- The shipper's prevailing nomination for the relevant consumer

If a GBN is declared, there would be no obligation on National Grid to accept any DSR offers

If the DSR offer is exercised, the flow reduction requirement would remain in force until either the GBN is revoked or a Stage 2 emergency is declared

Liabilities

How should liability be structured for failure to curtail demand if National Grid accepts a DSR offer?

Current UNC TPD D2.3.7 establishes a ‘Physical Renomination Incentive Charge’ of $0.005p \times \text{Trade Nomination Quantity}$ (capped at £200) where a shipper fails to renominate appropriately following acceptance of a Physical Market Transaction

In our view an enhanced penalty should be payable by the shipper where the failure to renominate is associated with a DSR offer which has received an option payment

- Proposal: PRI Charge + SMP Buy (to reflect the short position that the shipper would otherwise have been exposed to, assuming it was otherwise balanced)
- PRI Charge only would continue to apply to any accepted DSR offers that are not associated with an option payment

National Grid Assessment of DSR Offers

We do not currently envisage there being a target aggregate quantity of DSR that the invitation to offer would be seeking to meet

How could an economic and efficient quantity of DSR be determined?

Should this be purely a National Grid decision?

Also, if NGG sets a fixed option price then a process of accepting offers in price order would not apply

- However, if the exercise price is established within the invitation to offer then this could be used to prioritise offers submitted

Transparency and Reporting

We believe it would be important for the market to see the key metric outcomes of any DSR invitation to offer, anonymised and aggregated, akin to our post-tender publication for Operating Margins

- Total DSR volumes offered
- Total DSR volumes accepted
- Number of participating shippers
- Number of participating consumers (potentially split by industrial and power generation)
- If the shipper sets the option price, weighted average, minimum and maximum price accepted; or
- The common price (if National Grid sets it)
- Exercise prices could also be published as a range and weighted average anonymously, plus any indexed offers

This could be effected via an expansion of the existing reporting obligations in UNC TPD Section D5.2

Systems Implementation of Option Payments

Our initial view is that option payments would be made to the shipper monthly in arrears over the winter period

The Xoserve ad-hoc 'Request to Bill' mechanism is likely to be the most suitable tool to facilitate these payments

An Xoserve process change would be required to make these payments from the Balancing Neutrality account (if this were to be the funding mechanism) and re-calculate the Energy Balancing Invoices for all shippers

No changes to central systems or shipper systems are expected

Next steps

Consider feedback from these two additional Workgroup meetings and outcomes from engagement with large industrial stakeholders

**Report back to industry with a planned way forward at 4th August
Transmission Workgroup**