

UNC Workgroup 0835R
Review of Gas Demand Side Response Arrangements
Thursday 02 March 2023
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Arjan Geveke	(AG)	Energy Intensity User Group
Benjamin Cull	(BC)	Department of Energy Security Net Zero
Bethan Winter	(BW)	WWU
Charlotte Gilbert	(CG)	BU UK
Chris Wright	(CW)	Exxon Mobil
Dan Fittock	(DF)	Corona Energy
Dan Stenson	(DS)	Brook Green Energy
Daniel Donovan	(DD)	Corella on behalf of Xoserve
David Mitchell	(DMi)	Chemical Industry Association
David Morley	(DM)	OVO Energy
Eddie Proffit	(EP)	Major Energy User Council
Ellie Rogers	(ER)	CDSP Xoserve
Hannah Reddy	(HR)	Xoserve
Isabel Capp	(IC)	Department of Energy Security Net Zero
Kathryn Adeseye	(KA)	Xoserve
Louise Hellyer	(LH)	Total Energies
Mark Rixon	(MR)	Waters Wye Associates
Maryann Khan	(MK)	Ofgem
Matthew Chandy	(MC)	Ofgem
Matthew Devoy	(MD)	Total Energies
Matthew Newman	(MN)	National Gas Transmission
Oorlagh Chapman	(OC)	Centrica
Phil Hobbins	(PH)	National Gas Transmission
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RH)	Hewitt Home and Energy Solutions
Rozike Janzen Van Rensburg	(RJ)	ICE Endex Energy
Sallyann Blackett	(SB)	E.ON
Shiv Singh	(SS)	Cadent
Steve Mulinganie	(SM)	SEFE Energy Ltd
<p><i>The Workgroup Report is due to be presented at the UNC Modification Panel by 18 May 2023.</i></p> <p><i>This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.</i></p> <p><i>Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: https://www.gasgovernance.co.uk/0835/020323</i></p>		

1.0 Outline of Request

The Proposer, Phil Hobbins (PH) presented the Request, explaining that it seeks to review the Gas Demand Side Response (DSR) arrangements post implementation of Modifications 0822 'Reform of Gas Demand Side Arrangements' and 0833 'Enabling DSR Market Offers to be made by Non-System Trading Transactions'. Please refer to the Request published at: <https://www.gasgovernance.co.uk/0835>.

PH provided a re-cap of the DSR reforms delivered this winter, under Modifications 0822 and 0833, reflecting on where the industry is now and noting that further reform could remove barriers and broaden participation.

PH confirmed the monetary and DSR volumes associated for winter 2022/23 are around 2.1GWh per day (approx 0.2mcm) at a cost of £1.4m. The Workgroup questioned why National Gas Transmission had taken the small volume under option and whether this volume would have been sufficient to resolve a shortage. PH confirmed that NGT is seeking to grow the market and the decision was taken on that basis. A Workgroup Participant asked if there was a target volume being aimed for. PH suggested 5million cubic meters would be a material quantity although NGT is hesitant to set any specific target. It was observed that a budget significantly greater than £5million would be needed to secure 5mcm if the pricing remained similar. PH confirmed that the £5m quoted in the arrangements was not a limit but is a trigger to consult further with Ofgem.

A challenge was also made on how to value, what would be good value for the industry, and how suppliers could benefit on behalf of Shippers. PH confirmed this would be an issue to be explored further through direct contracting with consumers.

It was noted that the intent of the Workgroup will be to explore 4 key areas with the industry. These were:

- Direct contracting for DSR between National Gas Transmission and consumers.
- A longer lead-time DSR product such as D-5.
- The eligibility criteria and multiple site aggregation.
- Arrangements implemented by 0822 and 0833.

It was noted that an initial representation had been submitted and there are a number of Panel questions to consider:

- The inclusion of domestic market supply points, could DSR extended to include Product Class 1 and/or Class 2 sites.
- Would there need to obtain real time data flows and consideration of how a domestic site turn down could be measured.
- Changes to the Gas Act and Licenses.
- DN Communications when sites are turning down.

The Workgroup considered the potential complexity of changes, the ability to make system changes in time for next winter and blockers. Before considering more complex and longer-term products which could be de-prioritised for the following winter, it was suggested that the focus for the Workgroup initially should be on the shorter-term solutions to enable quick wins and for Modifications to be raised for this winter.

The Workgroup enquired about the ability of CDSP to implement system changes. It was clarified that some elements of the current DSR arrangements are being managed by a manual process. The extent of any system changes would need to be understood by the CDSP to provide a view on the timing/ability for implementation.

The Workgroup considered initially that direct contracting may have a two-year horizon and reiterated it may be better to focus on the quick wins.

It was noted by ~~that~~ some members of the Workgroup ~~recalled that~~ the previous DSR ~~review considerations~~ in 2014. They noted that during this UNC Review Group discussion the issue of the TSO directly contracting with End Consumers for DSR was considered. This

consideration included discussions with Ofgem and 'BEIS'. These discussions concluded that Direct Contracting with End Consumers for 'balancing services' was not consistent with the structure of the Gas Act, assessed direct contracting with Ofgem and it was concluded then that the structure of the Gas Act prevented direct contracting. It was suggested that it would be far better to focus on the size of bids, bidding limits and the original interruptible limits which may generate more bids.

PH provided the Workgroup with an overview of the timescales that would be associated with reforming the DSR programme and reiterated that NGT wish to avoid urgent modifications.

It was suggested that the Workgroup would also need to consider the commercial timings of tendering and contract renewals for supply contracts, because the incumbent shipper involved in the tender exercise may not hold the contract after 01 October and then there would need to be transitional arrangements. PH agreed that this may be a factor in favour of direct contracting.

2.0 Consumer and Industry Feedback

Phil Hobbins (PH) provided an overview of stakeholder feedback received which indicated that the related risk and liability, the complex bidding process, the concern about penalties, flexibility, and the preference to deal direct, all contributed to the low level of participation.

Other feedback included concerns that consumers cannot readily access the terms and conditions, that there were concerns of being able to manage the frequency, level of demand reduction and lead times for DSR.

The Workgroup considered the recent workshops held by National Gas Transmission (NGT) and a survey of the 40 parties who had participated., Steve Mulinganie (SM) asked if the 20 of these parties who indicated a willingness to participate could have delivered the volumes required. PH explained that NGT was not able to gauge from the parties present the potential volumes they might have offered.

A Workgroup participant encouraged consideration of funding, particularly Shippers funding the service, when some costs could be avoided with direct contracting, for example, the costs of a shipper having a 24x7 operations desk. It was suggested that operational arrangements could be managed directly with the consumer, allowing the consumer to act as an agent on behalf of the Shipper (allowing them proxy to manage the financial commitment themselves). It was suggested there could be a hybrid solution for billing where the shipper would then deal with the less time-critical administration. . It was observed that participation is currently voluntary and it was suggested that commercial incentives should also be considered for Shipper incentivisation.

The electricity equivalent service was considered through the use of direct contracting and aggregators.

Multiple Site Aggregation was briefly discussed. It was noted that an Aggregator may not be the registered supplier. A link was provided to the [Approved Providers List | National Grid ESO](#) of the current providers of the Demand Flexibility Service (DFS) scheme.

3.0 Direct Contracting

The Workgroup considered direct contracting. Phil Hobbins (PH) provided a reference to the Gas Act and an overview of, the extent of arrangements, the Shippers retained role for booking capacity, the payment of transportation charges and receiving gas allocations. It was noted that the view is that the Gas Act would not prevent direct contracting. PH confirmed that this represents legal advice obtained by NGT.

PH referred to the EU Balancing Code which permits TSOs to undertake balancing actions. PH confirmed that the Balancing Code has no restrictions on parties with whom the TSO can contract with for balancing services.

PH confirmed however a licence change would be required to allow direct contracting.

The Workgroup considered scenarios where the need for demand reductions can escalate very quickly. It was noted that only the largest consumers may wish to directly contract with NGT as these have 24x7 control rooms.

The Workgroup considered the very small pool of customers who can make a difference to balancing arrangements and that the aggregation of smaller sites may take longer to expedite. The Workgroup considered the 24x7 site operators, the engagement of NTS direct connects and their ability to utilise a D-5 service/process with the complexities of expediting.

It was noted that D-5 weather scenarios are relatively robust, to allow prediction of a 1in20 day and allow large supply sites to consider their ability to run down processes to a minimum without the need for a crash call.

It was suggested that there could be more flexibility and the rules should not be restrictive to only allow D-5. For example, the rules could be changed for a DSR product up to D-5 and have the ability to call of a similar or smaller volume at D-3 or D-2 with a specified price.

The Workgroup considered the funding and payment of direct contracting, balancing neutrality, NGT remaining cash neutral and the Pros and Cons.

No objections were expressed by the Workgroup on the principle of direct contracting, to complement rather than replace current DSR options.

The Workgroup considered how best to promote products and the need to have a sales process to make it work.

Further feedback was encouraged from all parties to allow further exploration either direct to the Proposer or via the Joint Office.

4.0 Longer Lead-Time DSR Product

The Workgroup considered a longer-lead time DSR Product. Phil Hobbins (PH) introduced the key issues with longer-lead times, the legal changes, the optimum lead-times, the trigger and market impacts, for instance the expansion of NGT's balancing role in the market.

There were no identified barriers within the Gas Act or constraints within the EU Balancing Code, limiting NGT to only taking within-day and D-1 actions. However, a Licence change would be required.

There was some indication that consumers would need between 2-5 days' notice to reduce gas demand with some consumers able to reduce in a shorter timeframe.

PH explained the execution method and the use of the OCM, confirming there would be some uncertainty unlike within-day and D-1 DSR options. PH noted the need for NGT to commit to an exercise at D-5, even if the need did not materialise. Although NGT could revoke an exercise it was expected that customers would need some certainty, and the further the days go out the more uncertainty there is.

The Workgroup considered the market impacts, balancing incentives, the expansion of NGT's role in the market and the risks that could impact the use of the prompter DSR products.

The Workgroup briefly considered market communications and the most appropriate communication route, for example, the use of ANS.

It was noted that the industry could gain a lot more from the use of a D-5 product due to the ramping down and ramping back up again which the industry could benefit from.

PH believed there was more of an appetite for a longer lead time, up to D-5, than direct contracting. It was relayed that creating more flexibility through different options (both longer-lead and direct contracting) offers more choice and potentially greater participation.

There were no objections from the Workgroup to progress further with a proposal for a D-5 DSR product.

5.0 Issues and Questions from Panel

The Workgroup noted the following Panel Questions for consideration at the next meeting:

- 5.1.** Please consider timelines and report back to Panel with potential timescales of Modification to aid planning for Workgroup meetings.
- 5.2.** How to ensure inclusive communications are maintained across the industry to ensure cohesion.
- 5.3.** Consider interactions with the licence (initial assessment provided 1st meeting)
- 5.4.** Consider and comment on the inclusion of domestic customers within future DSR arrangements.

Eric Fowler (EF) noted the need for a preliminary report requested by Panel in relation to the workplan, timelines and impact of legislation and industry licencing. It was agreed that the Proposer and the Joint Office would prepare high level overview of the key points from the presentations.

6.0 Initial Representations

The following initial representation submitted by OVO Energy, will be considered in more detail at the next meeting:

Why:

Product Class 3 (PC3) submit daily reads. Domestic PC3 accounts for 32 TWh per annum or approximately 10% of domestic gas outflows. It therefore is worth considering as a potential area for flex. Customers would need to be PC3, with consistent comms [95%] in last [6] months, and consent to [daily] read retrieval so that consumption can be verified.

Potential process:

Suppliers gain agreement from eligible customers > shippers create aggregate value > Gas Balancing Notification (GBN) > domestic shipper posts "Domestic DSR Market Offer" for aggregate > NG NTS accepts > shipper/supplier notifies customer to reduce consumption > shipper retrieves reads > shipper notes deviation from aggregate > NG NTS provide payment to shipper/supplier > shipper/supplier calcs consumption decrease on MPRN basis > customer credited.

Initial questions:

- Can this be done via On-the-Day Commodity Market (OCM)?
- What value could be gained

7.0 Terms of Reference

As matters have been referred from Panel a proposed Terms of Reference has been published alongside the Modification at www.gasgovernance.co.uk/0835.

8.0 Next Steps

EF confirmed that at the next meeting the Workgroup would consider:

Meeting 2:

- Eligibility and Aggregation
- Review of existing DSR arrangements post implementation of UNC Modifications 0822 and 0833
- Panel Questions

- Initial Representations
- Review of Request Workgroup Report

Meeting 3:

- Deliverability assessment of each workstream
- Capture interdependencies between workstreams
- Completion of Request Workgroup Report
- Consideration of draft UNC Modification(s) to succeed the Request.

9.0 Any Other Business

None.

10.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Thursday 23 March 2023	5pm Wednesday 15 March 2023	Microsoft Teams	<ul style="list-style-type: none"> • Eligibility and Aggregation • Review of existing DSR arrangements post implementation of UNC Modifications 0822 and 0833 • Panel Questions • Initial Representations • Review of Workgroup Report
11:30 Thursday 06 April 2023 Immediately after Transmission Workgroup	5pm Wednesday 29 March 2023	Microsoft Teams	<ul style="list-style-type: none"> • Deliverability assessment of each workstream • Capture interdependencies between workstreams • Completion of Request Workgroup Report • Consideration of draft UNC Modification(s) to succeed the Request

Action from Panel

Action Ref	Meeting Date	Minute Ref	Action	Owner	Reporting Month	Status Update
Panel 0201	16/02/23	Panel 304.11 (a)	Modification Proposer 0835R (Phil Hobbins) to provide an interim report to Panel on the DSR workplan/timelines and a view on the impacts to the Gas Act and Licenses (March 2023).	Proposer (PH)	March 2023	Report required at March's Panel