Additional Transmission Workgroup - DSR Minutes
Thursday 14 July 2022
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(RHa)	Joint Office
Helen Bennett (Secretary)	(MiB)	Joint Office
Alison Meldrum	(AM)	TAT Steel UK
Anna Shrigley	ASh)	ENI
Chris Wright	(CW)	ExxonMobil
David Mitchell	(DM)	Chemical Industries Association (CIA)
Eddie Proffitt	(EP)	Major Energy Users' Council
Helen Seaton	(HS)	Ofgem
Hursley Moss	(HM)	Cornwall Insight
Jeff Chandler	(JCh)	SSE
Joshua Bates	(JB)	National Grid
Lauren Jauss	(LJa)	RWE
Mark Doyle	(MD)	Gazprom Energy
Mark Field	(MF)	Sembcorp
Matthew Newman	(MN)	National Grid
Nick Wye	(NW)	Waters Wye Associates
Olga Roslova	(OR)	GM&T Ltd
Pavanjit Dhesi	(PD)	Interconnector Ltd
Phil Hobbins	(PH)	National Grid
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	HH & ES Ltd
Sam Hughes	(SH)	Citizens Advice
Steve Chambers	(SC)	Gazprom
Steve Mulinganie	(SM)	Gazprom

Copies of all papers are available at: https://www.gasgovernance.co.uk/tx/140722

1.0 Introduction and Status Review

Eric Fowler (EF) welcomed all parties to the meeting.

1.1. Approval of Late Papers

No later papers to consider.

2.0 DSR

Phil Hobbins introduced the session and explained that, as part of the National Grid preparedness, they continually review the mix of tools and notifications available to them in order to manage the Network. As part of their review, Demand Side Response (DSR) has been identified as a relevant topic for enhancing security of supply for this coming winter.

PH explained that for DSR offers to be available on the On-the-day Commodity Market (OCM) contractual terms between the consumers offering the physical response and its contractual terms between Supplier / Shipper posting the offer consumers are a prerequisite.

PH went on to clarify that National Grid wish to discuss with the industry the following:

- Whether the introduction of DSR option payments would be desirable to help mitigate the risk of a gas supply emergency
- Principles against which such payments should be judged
- Issues that would be associated with their introduction and potential solutions

If the conclusion from these workgroup meetings is that DSR option payments would be a beneficial reform, the relevant UNC Modification would likely need to be progressed according to an Ofgem agreed timescale to allow implementation this coming winter.

PH presented his material which covered the following main topics. Where there was specific interaction regarding particular slides with the Workgroup members, this has been captured within the minutes for each section of the presentation, and full details can be found on the published presentation here: www.gasgovernance.co.uk/tx/140722.

The secretary for the meeting would like to note, that these minutes do not include the content within the slides presented perse, but do make reference to the material, therefore, it is recommended that the reader uses the presentation material in conjunction with these minutes.

Immediate Timetable - Slide 4

PH noted that National Grid are also engaging, in parallel with these additional Workgroups, with large Industrial consumers in order to better understand the current barriers to participation. The first meeting is planned for Friday 15 July 2022.

Indicative Longer-term Timetable - Slide 5

PH advised that, if a Modification is required as part of the conclusion to these discussion, it will be raised mid to late August 2022 and will follow Urgent governance process, if Ofgem provide a positive decision it is likely the consultation will be held in September 2022. He also noted that changes to the DSR Methodology would also be required which would run in parallel with the Modification, once the Ofgem decision on the Modification and DSR Methodology is received after the Consultation, that could then be the trigger for Shippers / Suppliers / Consumers to prepare DSR contracts.

Questions

Jeff Chandler (JCh)

JCh asked if it is possible to run an invitation to offer earlier in the process than November 2022 appreciating this is subject to final Ofgem decision, but if there is an issue early winter, Users will not want to wait until December. PH advised he will consider this and advised that in principle, that is something that National Grid could do, but the challenge is that Shippers / Suppliers may not want to engage if they do not have that certainty.

Mark Field (MF)

MF advised he supports the question raised by JCh and noted there needs to be an understanding if the solution works and if the offer is able to be up-taken in order to make sure there is optimum time at the end of the process to deal with any unforeseen circumstances.

Lauren Jauss (LJa)

LJa noted that existing contracts might have a limited duration and may be coming to an end in December 2022 or March 2023, therefore, it might be worth discussing how this product might fit in with the contract tenors too. PH recognised the point and agreed to further consideration of Calendar basis vs Gas Year basis for contracts.

Eddie Proffitt (EP)

EP asked what is the incentive for Shippers to market the DSR service? PH advised that is part of the reason for the engagement with consumers because they may be capable and willing to provide this service as soon as possible. If there is a commercial incentive for them then Shippers may consider this and potentially lead on to them giving National Grid some offers rather than face the worst-case scenario of National Grid declaring a Stage 2 emergency.

PH made reference to the progression of *Modification 0806 - Change to Curtailment Trade Price Compensation in Section Q* which, given the changes to the GB energy system, seeks to provide adequate incentive and compensation to help ensure gas is purchased in advance.

PH advised that if option payments were a way forward, that could command more support for the scope for the Consumer to be having the discussion with the Shipper / Supplier.

PH advised the next meeting on Monday 18 July will include some Shippers and Suppliers perspective.

Ritchard Hewitt (RHe)

When RHe asked, with reference to the contractual path, who does National Grid contract with and what is the cash flow, PH advised this is covered later in the presentation material, however, National Grid is constrained by its Licence and cannot currently contract directly with the consumer.

Nick Wye (NW)

NW commented that the incentive is for Shippers is to get their loads off their balance before a Stage 2 emergency is declared as this would protect their imbalance position.

Steve Mulinganie (SM)

SM suggested that making the product desirable to all parties is important and the inclusion of a review of the whole lifecycle in order to ensure it works as effectively as possible.

Alison Meldrum (AM) advised, in comparison with Electricity, she prefers considering this product as a contingency arrangement.

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 - Slide 7

Historical Timeline - Slide 8

Key Principles of DSR - Slide 9

Mark Field (MF)

MF asked National Grid if, as part of the key principle of DSR, do they automatically assume that any safety implications have been taken into account or are there any at this early stage of the process? PH advised that the type of Sites that this product is aimed at, many of them may have obligations to curtail, which should be done in a controlled way and that he would expect those safety implications to have been considered.

AM confirmed that obligation is already in place.

David Mitchel (DM)

DM commented that supply failure or extreme levels of demand is very different to what is being proposed, which is not quite DSR. He asked how the industry will know this is coming ahead of time as big industrial loads need a lot of planning for load shedding. He said that the DSR principle described is based on it being done on the OCM which will only be within day and wondered how the industry can get into a situation and accept bids further ahead of time as this helps to plan more accurately and helps counterparties to step down on production, this would be a controlled orderly manner to get people off the Grid.

PH advised it is predicated in terms of the current gas day and that the obligation is on the Shipper to renominate down by the extent of the accepted trade and the Consumer to reduce their end of day gas intake by that amount. If the offer is accepted when some gas offtake has occurred, under current rules, gas balancing notification is a within day process, these rules, at the moment, are triggered within day. PH agreed that may be something that could be looked at.

RHe noted that the OCM opens 7-days prior to a particular gas day for posting but that trades are taken on the day because it is unknown what the flows are going to be prior to the nominations at D-1.

DM said that, currently, the DSR is the only commercial way of lowering demand and that it would be useful if there was an understanding of what the rules are at the moment ; how the offer of acceptance windows are set; when does the OCM start and when can the Shipper accept the bids.

NW advised that National Grid are publishing the 7-day rolling Margin Notice which gives a more advanced view of supply issues. NW suggested that perhaps the linking of the DSR to the Margins Notice rather than the Gas balancing Alert could be looked at in more detail.

RHe informed Workgroup of some of the historical arguments put forward by Ofgem on this topic:

- If the price of offers are correct why are consumers concerned?
- if the Industry wants certainty of an interruptible market, why is it not more common?

RHe also noted that the further you move away from within day the more speculative it becomes; this needs consideration if the role of the Residual Balancer is going to be anything different than prior to Day Ahead.

EF summarised the Residual Balancer role should be close to real time; this could become a market with Shippers ahead of the day taking their own view in order to get their individual nomination right.

RHe commented that has always been the challenge to define where the Residual Balancer role should start and finish and what is the role of Shippers in Stage 2. Industry would need to come up with an argument why the Residual Balancer role should be wider.

AM noted it would be interesting to know what happens in Europe.

NW pointed out that historically some consumers might be concerned that Shippers are using interruption for their commercial gain, the correct use is as a contingency and linking it to a formal notification by National Grid gives it validity and is entirely right.

DM advised that the majority of large Industrial & Commercial Users that could potentially give the volume to National Grid already have their supply contracts and want to produce paper or steel or chemicals, etc. They are not motivated to sell back their gas supplies.

Gas DSR – Current Process Flow - Slide 10

PH advised this slide illustrates the process flow that currently applies in terms of how the offer is made including:

- Posting the Offer
- Exercising the Offer
- Receiving Payment

DSR Offer Acceptance - Slide 11

PH advised that National Grid will not accept any price offered, they look at what offers are available and what prices are associated. He also noted that offers that are accepted feed through into cash-out, therefore, could set the System Marginal Price (SMP) buy price.

SM commented there needs to be an assessment of the cost of involuntary load shedding vs the cost of voluntary which should include political weighting. SM asked for the basis on which National Grid determine, is it purely a value assessment? PH advised that acceptance of the offer would be to avoid moving to Stage 2; if the price is high and the volume small and unlikely to avoid the emergency, it is less likely to be accepted.

EF added from his experience there are lots of grey corners in the decision-making process on the cusp of declaring an emergency as there are many ‘unknowns’ and many factors have to be taken into account It is not just simple arithmetic, each situation must be viewed on its unique merits.

LJa asked for clarification if National Grid are obligated to accept any offers regardless of the price, she added that if National Grid are not going to accept all of the offers, there needs to be an understanding of what the limits are.

New Action 0701 DSR: National Grid (PH) to confirm if National Grid are obligated to accept any offers regardless of the price.

LJa asked if this is expected to be a highly locational product? PH clarified that what the Residual Balancer does is a national balancing and added that currently whilst DSR appear as a locational product, which aims to reduce flow at a specific location and there is no National Grid desire to use it in that way.

RHe confirmed that the DSR is hosted on the locational platform because that was the most convenient frame. EP also advised that, historically, National Grid were unwilling to create a new separate market to address DSR and that his understanding is that there is no limit to an offer being made and that National Grid have to accept it.

DM commented that to use DSR is for the unplanned immediate failure of something and that what is being suggested is not that. He said the System Operator needs a way of moving demand off the Network ahead of time and that it would be helpful if Ofgem could advise what it is you they are looking to develop and what it is they would support.

Helen Seaton (HS) advised that Ofgem want to be sure the right tools are in place for what could be needed this winter, she added that the industry would need to set out the case for change. National Grid have to operate in an economic and efficient way, they are obligated to do that.

DM mentioned that the electricity regime spends money putting in place tools and is able to recover those costs. HS responded that would Ofgem be prepared to sanction something like that being considered as long as there is a strong case with justification within the confines of obligations as they stand, and with a clear benefit for consumers and a security of supply benefit.

SM commented that interruption as the previous tool was inefficient when the market was oversupplied but that Ofgem should accommodate the idea again on the basis the world has changed. It would be helpful for Ofgem to give an indication of the red lines, so the Workgroup is not wasting its time. He added that there are tools previously used or put forward that were previously rejected or disbanded that we may want to use now.

HS clarified that old arguments do not necessarily apply if there is new justification.

DSR Offer Acceptance - Slide 12

Option Payments – Slide 13

Option Payments - Slide 14

PH advised this slide shows what National Grid think the issues might be and what might be developing solutions.

Option Payments – Definition - Slide 15

PH advised that this slide shows the definition of what a payment made by National Grid to a Shipper, the payment would be security for that Shipper to post an offer to sell an agreed quantity of gas to National Grid on the OCM DSR Locational Market during the winter period.

RHe sought clarification that this applies only to Exit, PH confirmed. RHe suggested this needs to be clear in any Modification that might be raised as to why not Entry as well.

Option Prices: Original Rationale - Slide 16

PH referred to the original Modification that originally introduced the DSR ruled into UNC, *Modification 0504 Demand Side Response (DSR) Methodology Implementation,* which set out to implement the DSR methodology as required by Special Condition (SC) 8I, introducing an additional 'route to market' through which Consumers can receive a payment for voluntarily reducing demand when a Gas Deficit Warning (GDW) is issued.

LJa asked if National Grid have in mind the costs associated with the admin / resources required to put the contracts together, that is to do with option prices which also need to cover the cost of a Consumer turning down an offer, and reflect the probability of utilisation, does National Grid have in mind the admin prices and should they be wrapped into the option price or separate items? PH advised the option prices will include the contract cost as a minimum, he is less clear on what it covers beyond that and would be interested in Workgroup views.

LJa asked if National Grid are expecting some kind of exercise price as part of the contract? PH advised he envisaged that at the point of invitation to offer, the option price and exercise price would be set at the same time in order to manage the risk of paying out significant option prices if the exercise price was not known. He added that was initial view but exactly what would feature as cost items within those different prices National Grid are interested in views on.

LJa added that the option price is critical as to whether this works or not as the exercise price might be extremely un-palatable.

SM asked if there could be a customer example to compare in this regime vs the old interruption regime to see what the difference are. PH noted the comment and advised that as this is still in the exploratory phase, he accepts the point and will consider how National Grid would structure the price in the offer.

NW suggested that the option contract needs to establish both the option and the exercise price. He further suggested that the price for Volume of Lost Load VOLL is a natural cap at £14 per therm. The value of DSR contracts would be any price below current price per therm. NW noted that if a customer enters into these arrangements, they would still be free to exercise self-interruption and sell the gas back independently of the DSR process.

EP clarified that the price of £14 per therm value (as quoted in Code), consultants gave that figure, they interviewee the domestic market and came up with that figure but that was 10 years ago. From a customer point of view the option has to cover the cost of having an alternative fuel. Lots of customers still have fuel oil but large combustion plant directive means they cannot burn it for commercial purposes, only in an emergency.

Phil Lucas confirmed the hardcoded value of £14 per therm is at:

TPD Q 4.1.3 (c)

"Assumed VOLL" means a price of zero decimal four seven seven seven pounds per kWh (£0.4777/kWh)".

He provided the following example: 0.477p/kWh*29.3 = £14

Following a debate on whether this value is representative of the current price conditions Workgroup agreed this would suggest the value of lost load needs revising.

What commercial framework changes would be needed to introduce option payments? - Slide 17

PH highlighted the impacts to the commercial framework if option payments were introduced:

UNC TPD

- Section D5: covers DSR offers, acceptance and reporting
- Section Q3: sets out that the operation of DSR methodology is only triggered from issue of a GBN
- Section F4: if option payments were to be funded from Balancing Neutrality

DSR Methodology

- Includes arrangements for the DSR offer price, the OCM acceptance, exercising of accepted offers and settlement
- Changes would be required to the DSR Methodology to incorporate an option price. These would need to supplement the existing provisions setting out exercise price.

NTS Licence

- National Grid's initial view is that no Licence change would be needed

Referring to the funding of the option payment, JCh said his preference is that funding for the option should come from Non-Transmission charges and not Balancing Neutrality. PH advised the National Grid provisional view that this is a cost incurred in order to facilitate the balancing of the Network therefore it is appropriate to Balancing Neutrality.

EP advised his view is that the option fee was always Transportation Charges, and the exercise fee was put through Balancing Neutrality.

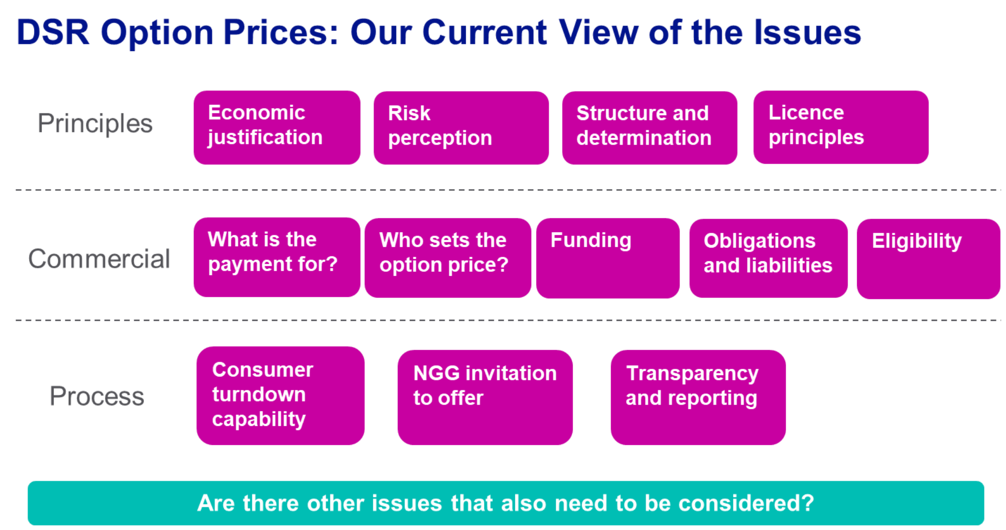
PH added that if there is a change to the cost base of the Non-Transmission charges this may require a licence change which may then present a challenge to timescales.

SM asked whether the reintroduction of interruptible contracts would require a licence change. PH agreed to take away the question.

JCh suggested that the problem could be broken into two parts: firstly, a solution is needed for this winter based on what can be got over the line in time and secondly for an enduring basis to mid-2020's. JCh further suggested that National Grid could give industry longer notice, within day not sufficient. There may be a need for more imaginative solutions for this winter. PH agreed this as the general approach.

DSR Option Prices: Our Current View of the Issues - Slide 18

PH advised this slide shows National Grid's view of the current issues:



Principles

Economic Justification – PH advised the solution needs to demonstrate value for industry as a whole which was one of the difficulties the previous Modification encountered. This is an issue that would be noted in the relevant objectives if a Modification is raised in due course and will need analysis in order to demonstrate the prices are economic and efficient.

RF suggested that in terms of generators there should be a separate conversation which is unlikely to be one resolved for this winter. The issues for generators are separate from I&C consumers because they face different drivers. RF confirmed that electricity market exposure is the main thing they are worried about.

EF summarised the point as being that for power generation the value of the lost opportunity caused by being interrupted is dynamic whereas for I&C customers the value of lost production is more consistent. RF clarified that different penalties apply under the Gas and Electricity Acts.

PH stated the expectation that only I&C would participate. Generators could be excluded but that could lead to concerns about discrimination. A suggestion was made that the offer goes to everyone, but National Grid prioritise acceptance in terms of the I&C Sites.

MF asked whether power generation was excluded from load shedding. EP noted that the E3C committee has considered measures for removing power generation from any gas balancing I.e. to make them firm but was unsure if it had come to any conclusions.

DM recalled that in the load shedding order it's the largest off first. DM identified currently 7mcm of industrial load on the NTs while gas generation is 60million. EP pointed out that the majority of commercial load, around 49mcm, is connected in the LDZs and could also be eligible.

SM stated that the review should not exclude gas generation carte blanche because there may be days when there is plenty of alternative generation available but that a situation of 'lights out' would be politically unacceptable.

DM noted a BEIS communication to large industrial users to look at the impact on supply chains if they get interrupted. Looking at the worst-case scenario, what would that cause to the supply chains of things like medical oxygen, water supply, etc.

LJa suggested that there would be no need to distinguish between who can and cannot take part – can be tailored to potentially be I&C DSR. Could be open to all but just might not suit all.

PH suggested that Xoserve could provide data for the aggregate value for LDZs and that 40 million cubic meters might be added to the 6 or 7 that is off the NTS at any given time. It was suggested that there are many small sites in the LDZs, EP suggested over 1000 previously but that this could be considered on an 80/20 rule as a lot of the volume is with a small number of sites.

RHe pointed out that previously the sites would have to be DMC (daily metered customers). SM countered that now virtually all have Class 2 and AMR equipment and can be monitored. There would be potential for aggregation of sites and a lot of volume is monitored at a granular basis

In conclusion, PH confirmed that option price discussion will continue at the next session planned for the afternoon of Monday 18 July.

Summary of Considerations:

- Contracts: consideration of Calendar basis vs Gas Year basis is required.
- Obligation is on the Shipper to renominate down by the extent of the accepted trade and the Consumer to reduce their end of day gas intake by that amount. If the offer is accepted when some gas offtake has occurred, under the current rules, gas balancing notification is a within

day process, these rules, at the moment, are triggered within day. PH agreed that may be something that could be looked at.

- NW advised that National Grid are publishing the 7-day rolling Margin Notice which gives a more advanced view of supply issues and suggested this could be looked at in more detail.
- The further you move away from within day the more speculative it becomes; this needs consideration if the role of the Residual Balancer is going to be anything different than prior to Day Ahead.
- Where does the Residual Balancer role start and finish and what is the role of Shippers in Stage 2.
- There is a need for something that is not demand reduction as most of the large sites have already secured their supply.
- There needs to be an assessment cost of involuntary vs the cost of voluntary.
- Review the old interruptible regime

2.1. DSR Summary of Feedback to date

This was covered as part of general agenda item 2 discussion.

2.2. Expected Timescales

This was covered as part of general agenda item 2 discussion.

2.3. The Case for Options Payments

This was covered as part of general agenda item 2 discussion.

2.4. Setting the Option Price

This was covered as part of general agenda item 2 discussion.

2.5. Funding Arrangements

This was covered as part of general agenda item 2 discussion.

2.6. Offer Eligibility

This was covered as part of general agenda item 2 discussion.

3.0 Any Other Business

None raised.

4.0 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	Venue	Workgroup Programme
13:00 Monday 18 July 2022	Microsoft Teams	• Finish Option Payments discussion • National Grid Invitation to Offer Process • Obligations and Liabilities • Transparency and Reporting Conclusions

		• Next Steps

Action Table (as of 14 July 2022)					
Action Ref	**Meeting Date**	**Minute Ref**	**Action**	**Owner**	**Status Update**
0701DSR	14/07/22	2.0	National Grid (PH) to confirm if National Grid are obligated to accept any offers regardless of the price.	National Grid (PH)	**Pending**