

Additional Transmission Workgroup - DSR Minutes
Monday 18 July 2022
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(RHa)	Joint Office
Helen Bennett (Secretary)	(MiB)	Joint Office
Alison Meldrum	(AM)	TATA Steel UK
Anna Stankiewicz	(ASt)	National Grid
Chris Wright	(CW)	ExxonMobil
Dan Fittock	(DF)	Corona Energy
David Mitchell	(DM)	Chemical Industries Association (CIA)
Davide Rubini	(DR)	Vitol
Eddie Proffitt	(EP)	Major Energy Users' Council
Gareth Evans	(GE)	Waters Wye Associates
Hursley Moss	(HM)	Cornwall Insight
Jeff Chandler	(JCh)	SSE
Joshua Bates	(JB)	National Grid
Julie Cox	(JCx)	Energy UK
Lauren Jauss	(LJa)	RWE
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Mark Doyle	(MD)	Gazprom Energy
Mark Field	(MF)	Sembcorp
Marion Joste	(MJ)	ENI
Matthew Newman	(MN)	National Grid
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
Steve Mulinganie	(SM)	Gazprom

Copies of all papers are available at: <https://www.gasgovernance.co.uk/tx/180722>

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: www.gasgovernance.co.uk/TX/180722

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

EF provided a verbal summary of the discussions held in Workgroup on Thursday 14 July, for details of the Workgroup discussions, please refer to the published minutes:

- National Grid are aiming for implementation for this coming Winter. There could be two streams to the Modification:
 - A solution that can be implemented for Winter 2022
 - Also, a solution with a longer lead time
- Consideration was given to National Grid providing a signal earlier and possibly an earlier form of balancing, however it was noted the earlier out you go, the more speculation is required.
- An action was taken for National Grid to provide clarity on whether they must accept bids at any price.
- A debate was held about how, in their original design, the tools were intended to work.
- Workgroup discussed the nature of the parties being able to participate if there is an obligation to tie an option price, if a party is manufacturing a commodity, they would have a degree of certainty of the value of lost production if interrupted; Generators should not be excluded.

Steve Mulinganie (SM) reminded Workgroup that when looking at other options, Workgroup should consider the arrangements that used to exist for the old interruptible regime as well.

EF advised Joint Office received comments on the minutes from 14 July, these have been updated and re-published. The updated minutes were approved.

Matthew Newman (MN) provided a verbal summary of the initial meeting held on Friday 15 July with Industrial & Commercial sites.

Key points of that meeting were as follows:

- National Grid received feedback regarding the lead times for curtailing flows and were advised this would potentially be a blocker for DSR due to the potential impact to business or damage to equipment.
- Lead times: National Grid have introduced a 7-day Margins Notice, this is not necessarily an instruction to turn down, but National Grid are looking at ways to improve the Notice.

RHe asked if feedback has been sought from end consumers and asked if National Grid are approaching Supply Side. He noted that Supply Side could be interested in option payments to keep additional processing plant available and turn up supplies in a DSR arrangement.

MN noted that if more Supply is required, the market will drive that as they would be incentivised to sell more gas.

PH noted the length of time that National Grid have to put arrangements in place, therefore, they ought to focus the extent to what they are looking into.

SM agreed that Supply Side has different drivers than Demand Side.

It was noted that there are reasons to distinguish between the two and Workgroup need to be mindful of the scope that is being considered and what is achievable within the timeframes we are looking at.

PH advised that National Grid are beginning to consider what issues would be involved in introducing option payments, if they are needed to stimulate this market.

PH noted the points to keep in mind from the meeting held with the large consumers on Friday and the feedback from Session 1 on 14 July:

- What quantity are National Grid contracting for.

- What price should National Grid be paying
 - If backup fuels are available, then offers are likely to be forthcoming.
 - If there is a halt in production, the option price would be a fairly high.
 - The lead time to call these Sites off, feedback is that several days' notice would be required, therefore, how do National Grid demonstrate there is economy and efficiency in accepting offers ahead of time, when operating in BAU.

PH presented his material for the meeting which covered the following slides, discussion has been captured where applicable?

DSR Invitation to Offer – Slide 3

PH advised that 'invitation to offer' is a process currently being used for operating margins services and that National Grid are looking to introduce something similar to that process.

Shippers that have offers accepted by National Grid would then receive an option payment.

Lauren Jauss (LJ) asked if there is any obligation for the Shipper to pass on the exact payment to the end consumer, PH clarified that would be a conversation between the Shipper and end-consumer.

RF noted that the option payment sounded a lot like an exercise payment, and he thought it would be more like an availability payment, like OCM. PH clarified it is an availability payment, it is the commitment to make the offer.

RHe advised the payment is for somebody to place a bid on the system, on any day, within a specified time, PH agreed with this and added if there is a trigger for a Gas Balancing Notification, when the DSR market is open, the Shipper will need to have placed an offer equal to the option price they have accepted.

SM asked, in the context of an availability payment, how far in advance would National Grid know, he said this feels like a less certain type of arrangement. PH advised National Grid are contemplating that the option payment would apply at least for the winter period and be guaranteed for that period of time. He further noted that whether or not it would be something National Grid would commit to making each and every winter, would need further thought.

Julie Cox (JCx) asked in relation to the option arrangement, this would say the Shipper will commit to putting a certain volume on the On the Day Commodity Market (OCM) a week ahead, what if the Site is using less than normal, would that be handled in the OCM contracts? PH advised the Site needs to be taking that level of gas so that it can reduce by the level they are contracting for.

JCx noted this could be a chain of contractual arrangements and there is a need to understand what the roles and responsibilities are.

Louise Hellyar asked what price the gas that is sold to National Grid would be, PH clarified that would be the exercise price, which triggers the physical response and is priced separate to the option payment.

DSR Invitation to Offer: Draft High-Level Process – Slide 4

Obligations – Slide 5

If parties are taking their gas contract on a day ahead index that is one way of fixing that price.

SM asked, in relation to the 'availability payment' if this is a commitment between the Shipper / Supplier and the end-consumer, what happens if the customer is no longer with that Shipper / Supplier? PH advised, if the Shipper / Supplier is committing to this, there are certain things out of National Grid control, for example, a customer moving their contract elsewhere, one solution could be an obligation on the Shipper / Supplier to inform National Grid and from that point the contract ceases and a new contract is negotiated.

SM asked, in relation to physical constraints, if this process gives enough notice for some large consumers to perform a 2-day switch over. PH advised there might be more discussion needed; it seems to be a big barrier at the moment. National Grid are looking for a within day response, it would be difficult to give an instruction that we want demand off the system ahead of within day.

EF noted, if the desire is to have a base of customers that can respond more quickly, there may be a limited number of factories, but there may be lots of smaller consumers that can partially reduce, that might be another solution. PH advised that was discussed with the large users on Friday 15 July where it was considered if Shippers could take on a role of aggregator at smaller sites.

Chris Wright (CWr) asked if there is any intention to build in checks and balances, where there is a commitment to turn down, what if a business is in a long term shut-down, they will not want to be paying those businesses an option fee if they have no intention of taking gas during the period. PH noted, if that did arise, National Grid could put an obligation on the shipper to inform National Grid.

EP noted that the attendees of the large consumers meeting held on Friday 15 July, had little knowledge of what the rules are and it appeared that they assume they will have 2-days' notice for a turn-down.

When SM commented that, for this to work, there needs to be an understanding of risk, that there needs to be an element of jeopardy which of course is sensitive. PH advised that Shippers would need to have arrangements in place that can facilitate this service and for Shippers to make it clear there is a potential set of circumstances when supply will be tight and to do this without being alarmist. Alison Meldrum (AM) questioned, if this is a last resort contingency arrangement, why are National Grid so wedded to this process? She asked if there can be bilateral discussions with large industrial users instead. PH clarified National Grid are not wedded to this process but given the short time it is easier to evolve and adapt something that is already in place rather than create something new. A further concern is to have transparency and be non-discriminatory. AM countered that there may be cases for due discrimination and that large sites want to avoid core damage so would want to be engaged early. AM asked whether National Grid is attempting to satisfy too many constraints.

DSR Invitation to Offer: Draft Proforma – Slide 6

PH provided a view of a draft proforma that could be used for a DSR Invitation to Offer.

Feedback was provided and the following suggestions were offered:

- To add in the number of days the offer will be in place for
 - If it's a single day offer, the invitation would be to reduce flow by the end of that day, or, for multi-day offers, that would be the number of days that the offer should be in place for.

When asked, PH clarified the current rules, if a DSR is accepted and a Stage 2 Emergency is then declared, the exercise would be paid and on the subsequent days the requirement for the reduction would stay in place and the Shipper would be paid the 30 days SAP as per the Emergency Stage 2 process.

PH provided the following update to **Action 0701DSR**:

There is a general principle that National Grid would judge whether accepting offers will have an impact to avoid an emergency, for example, a low volume priced very high, would not be economic and efficient to accept if it cannot avoid the incident.

SM asked if there is an upper tolerance that is triggered by price, where a Shipper has got the volume but at a very high price. PH clarified, if taking that bid avoids going into a Stage 2 Emergency that would be the right thing to do.

JCx noted that whilst taking off large sites through DSR reduces the requirement to take involuntary firm load shedding there could still potentially be an impact on the electricity market. The electricity and gas sectors should be talking as we approach emergency conditions. PH agreed this scenario needs to be understood.

RHe commented that, with regards to the highest price that might be accepted, 4 years ago gas prices were very different to what they are today. The price will feed through into balancing neutrality. This in turn feeds into cash-out and therefore has a cash consequence for Users

PH commented that maximum acceptable prices are not defined as such but are more about what effect does this have on the Industry vs what is the benefit of not going through to a Stage 2 Emergency.

PH clarified the £14 per therm figure which is quoted in Code, as discussed at the last meeting, establishes the compensation for domestic consumers when in Stage 3 Emergency and National Grid are isolating domestic consumers.

DM noted that the Code compensation has no natural cap. RF added that it was set at a level that the market wished to avoid paying. JCx noted that winter gas is trading at £4 per therm so the gap isn't so great anymore. CWr noted that the £14 per therm was an Ofgem set price that was defined by London Economics – essentially, consumers would rather go cold than pay a higher price. CWr asked if National Grid are looking to revise the price, there was some rigour set around how it was calculated and we should make sure a new price cap is set using the same thought process.

SM asked how National Grid will define an exercise price in view of the other modification in play (Mod 0806). PH shared his concern that if the exercise price is not known until on the day, a User could bid a price that National Grid would not want to accept.

Obligations cont'd – Slide 7

JCx sought clarification on the 30-day SAP payment and asked, if a DSR offer that was for 5-days was made, if on day-3 National Grid moved to a Stage 2 Emergency, the User would get the offer price for 3-days then SAP for 30 days. PH confirmed this was correct.

Liabilities – Slide 8

This slide asks how liability should be structured and provides National Grid view.

National Grid Assessment of DSR Offers – Slide 9

JCx questioned how National Grid will get from the current status to a fully worked out Modification proposal, PH agreed there are lots of open questions and if parties do have any ideas or suggestions, he would be very happy to consider them.

MF asked if it is possible to set an efficient quantity, and if that were to negate anyone's offer, would that be discriminatory or arbitrary? PH advised it would be difficult to establish something that is credible, and that National Grid do not have the perfect foresight. He added it is difficult from a volume and price perspective and National Grid could just go out with an invitation to offer and see what National Grid get back and award what they believe to be the most appropriate.

When MF asked if National Grid are having to assess the quantity at risk if they were to set an aggregate target, PH advised there is no method currently for doing that.

When MF asked if this could be considered as part of the Modification development and contemplated as part of Workgroup discussions, PH confirmed this Modification is more likely to progress as an Urgent Modification therefore will not involve Workgroup meetings.

Transparency and Reporting – Slide 10

PH provided a view of an initial list of what might be suitable to make available in terms of reporting.

It was suggested that a mechanism for assessing offers from power generators should be established. It may be right to take off I&C load first.

Systems Implementation of Options Payments - Slide 11

PH explained that National Grid's view is that option payments would be made to the Shipper on a monthly basis, in arrears over the winter period and that the Xoserve ad-hoc 'Request to Bill' mechanism is likely to be the most suitable tool to facilitate the payments.

PH confirmed, if a Modification proposal is raised, he intends to submit the Change Proposal at the same time. PH also noted that initial indications are that any system modifications would be unlikely to be a barrier.

When SM questioned why the payment would be monthly, PH clarified the rationale for doing it monthly is that it could help to smooth the charges in balancing and neutrality to other Shippers and added there is also a scenario to consider where a Site is no longer partaking in the service, National Grid would be able to stop the payments rather than recover the lump sum paid.

Next Steps – Slide 12

PH confirmed the next steps to be:

- Consider feedback from the additional Workgroup meetings and outcomes from engagement with large industrial stakeholders.
- Report back to industry with a planned way forward at Transmission Workgroup on 04 August.

Jeff Chandler (JCh) urged National Grid to be quite bold in terms of their decision making, especially if there is a choice between DSR and firm load shedding and commented that if Industrial customers are saying they need 3 days advance notice to execute things, National Grid should find a way.

EF clarified, the tool under discussion relates to the role of the Residual Balancer. The key questions are whether National Grid could provide longer notice but not necessarily effect the Demand Side Response exercise, or if a DSR tool should be used a lot earlier than the normal in the role of Residual Balancer.

JCh highlighted that it could be both and that BEIS have previously made bi-lateral deals in order to keep plants open and again urged National Grid to keep an open mind in terms of solutions.

SM agreed the product needs to be usable.

JCx commented that National Grid would not want to be in a position where they look back and identify a different approach could have been made and suggested guidance from Ofgem and the Government should be sought.

RHe echoed JCx comments and added, balancing the market is not easy and that as a Residual Balancer role, what volume should National Grid purchase and at what price. What is responsible and economic. What does the market think is too much to spend?

PH thanked Workgroup for their useful reflections and advised he does plan to have more engagement with the large industrial sector to see if they can find a common ground. He suggested that maybe a short survey would be a good way forward to see what changes would be required to encourage participation.

PH recognised the number of open issues and said he is very far away, at the moment, from being able to finalise a Modification with Legal Text and will liaise with Ofgem and BEIS to see what the best route is to pursue this issue.

EF commented that there are no voices saying, 'do nothing', and there is a great deal of support to do something. He added there is an element of jeopardy for this coming winter and there is a lot of support for National Grid to put something in place.

PH thanked everyone for their availability at short notice.

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
10:00 Thursday 04 August 2022	Microsoft Teams	<ul style="list-style-type: none"> Standard Workgroup agenda

Action Table (as of 18 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)	Closed