



UNC0835R – Workgroup 2

23 March 2023



Agenda

- **Re-cap of Workgroup 1**
 - NGT reflections
- **DSR eligibility criteria**
- **Aggregation**
 - Contracting models
 - Execution arrangements
- **Review of Modifications 0822 and 0833**

0835R – Workgroup 1 – Feedback Summary

Focus on what's achievable for winter 2023/24 – D-5 product may be more easily implementable than contracting with parties outside UNC

A previous assessment concluded that contracting for DSR with consumers would not be consistent with the Gas Act

Increased DSR volumes means a need to increase the £5m Ofgem referral threshold. How to demonstrate 'good value' DSR?

How to level the playing field among shippers if contracting outside UNC is not in place for 2023/24?

Contracting with parties outside UNC reduces shipper risk but could still require out-of-hours shipper processes

Contracting between NGT and consumers would work best for large sites, aggregators could be used for smaller sites

0835R – Workgroup 1 – Feedback Summary

Preference to enable contracting outside of UNC in addition to the existing shipper option tender route

Limited number of consumers would want to contract directly, most would prefer via supplier / aggregator

D-5 is a premium worth paying as there is reasonable certainty of weather and impact on demand. Ramp-down period also has value

Consider offering D-2, D-3, D-4 as well as D-5 to give sites maximum flexibility

Consider implementation timing as consumers may change shipper from 1 October

NGT Reflections – Workgroup 1

- Enabling contracting with parties outside of UNC could unlock access to and address shipper concerns about the current arrangements
- We have not located a previous assessment against the Gas Act; we remain of the view that contracting with other parties (consumers, aggregators, suppliers) for DSR would not breach relevant legislation
- Where contracting remains via the shipper, we consider that incentives to participate should prevail rather than measures which would compel terms to be offered to interested parties
- If the need for a shipper to renominate post DSR exercise is a barrier, we are open to consider options, provided we still have a means of validating that the service has been delivered
- We expect a D-5 product would deliver more DSR volume, however the exercise trigger and value would be less clear than D-1 and within-day options
- We regard D-2, D-3, D-4 DSR products as potential future enhancements

Eligibility Criteria & Aggregation

Eligibility Criteria and Aggregation

- At present, a consumer must be class 1 (DMC) with an AQ of at least 2m therms pa to participate in gas DSR
- The minimum offer size is 100,000 kWh, derived from the minimum trade size on the OCM

Issues for discussion

- Extension of eligibility to class 2 consumers
- Eligibility of DM CSEPs and sites connected to IGT networks
- Validation of demand reduction
- Reduction in minimum trade size
- Aggregator role and contracting / execution models to enable multiple smaller sites to offer DSR

Eligibility Criteria

- Daily metered status is the key requirement to enable validation of demand reduction
- Class 2 consumers are 'elective' daily metered and could therefore be included within scope
- In principle, we believe that DM CSEPs and class 1 & 2 sites within IGT networks should also be eligible to participate
- It would be possible to reduce the minimum trade size within the DSR locational market, however, DSR exercise needs to be for meaningful quantities in NTS terms
 - Our initial view is therefore to retain the current 100,000 kWh minimum trade size and enable access for smaller sites by aggregation

Eligibility Criteria – DN Connected Class 1 and 2 MPRNs

Class	Quantity of MPRNs	Aggregate Annual Quantity (kWh) (mcm)	Average Annual Quantity per MPRN (kWh) (mcm)	Aggregate Daily Capacity (kWh) (mcm)	Average Daily Capacity per MPRN (kWh) (mcm)
1	563	85,277,915,843	151,470,543	479,187,756	851,133
		7,827	13.90	43.98	0.078
2	701	8,720,429,381	12,439,985	74,251,054	105,922
		800	1.14	6.82	0.010

Potential Additional DSR Volume from Class 2 MPRNs

+5% of Class 2	35	436,021,469	40
+10% of Class 2	70	872,042,938	80

3,712,553	0.341
7,425,105	0.682

Aggregation

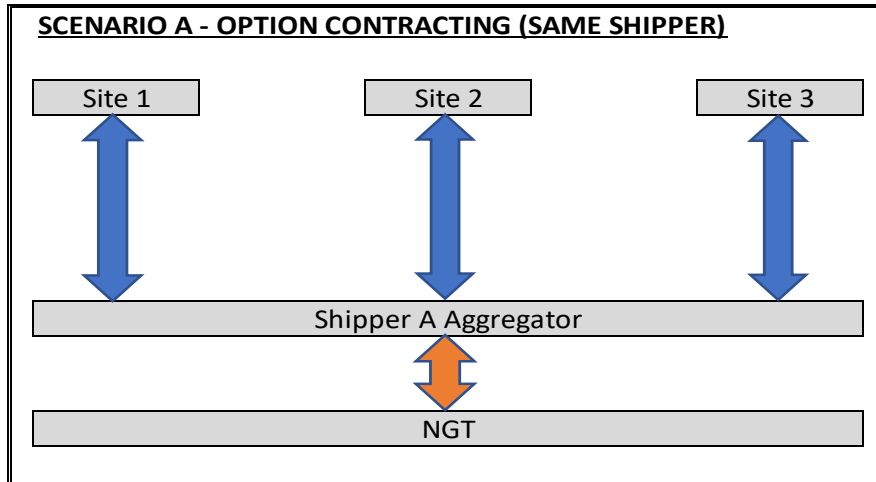
Proposed definition: Where a party contracts with both NGT and DSR service providers to facilitate a quantity of DSR to be offered and delivered by more than one consumer

- Expands the DSR market by enabling consumers to participate that would otherwise be excluded
- An aggregator could potentially be a shipper, supplier or any other party

Areas to explore

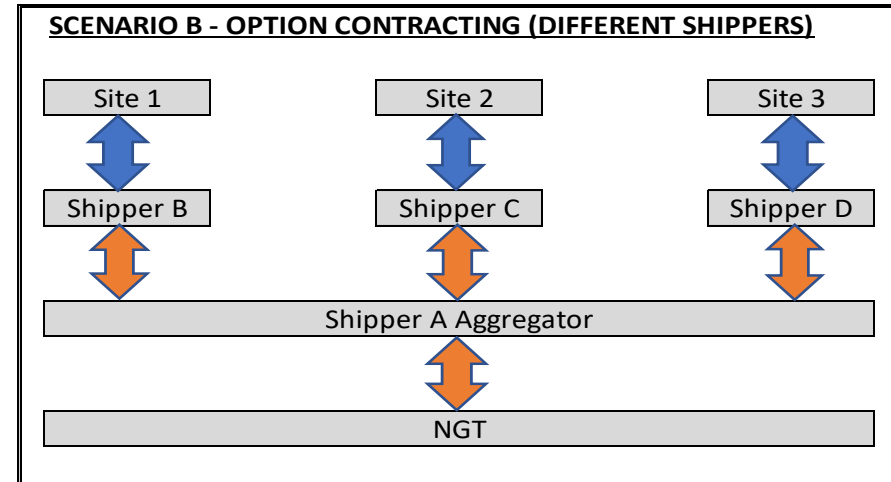
- Aggregator function / role definition
 - Option bidding
 - When DSR is exercised
- How could UNC accommodate aggregators which are non-Code parties? / does it need to?
- Data permissions for non-shipper aggregators
- Means by which non-shipper aggregators are notified of DSR exercise
- Invoicing of non-shipper aggregators (NGT or CDSP activity)
- Maximum number of consumers per option offer?
- What happens 'if things go wrong' e.g. aggregator fails to make timely exercise communications to sites or ceases trading?
- Implementation and systems impacts

Potential Aggregator Contractual Models



New contractual relationship

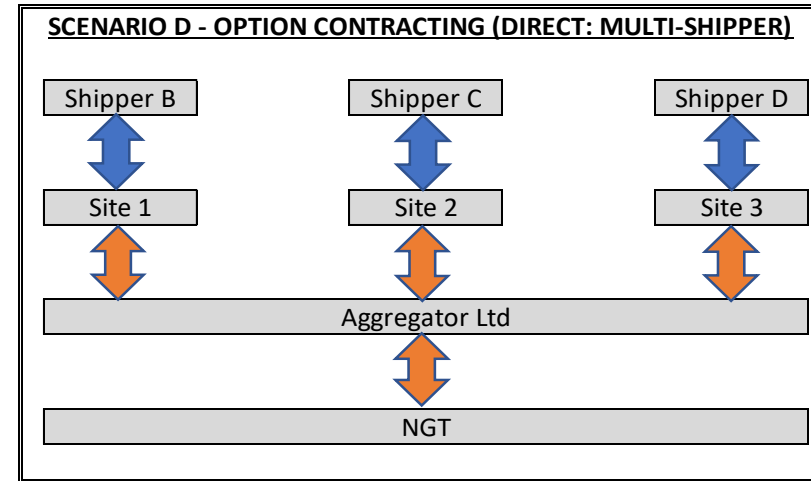
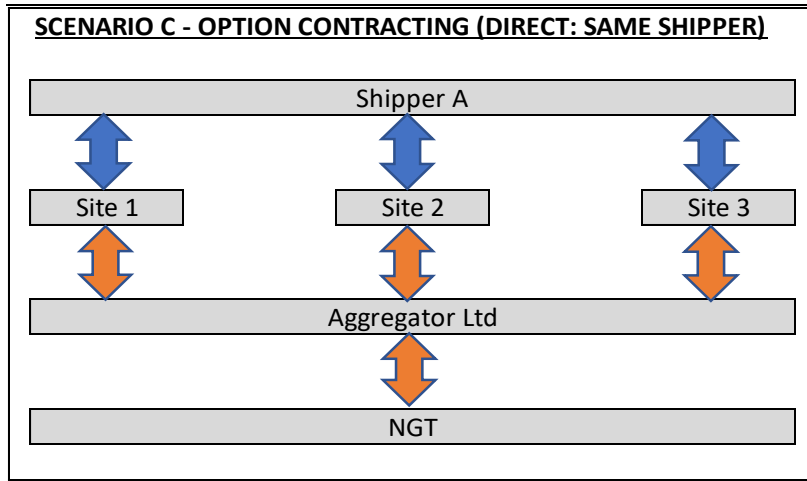
<p>Description</p> <p>Shipper A acts as an Aggregator for Eligible Sites within its own portfolio. NGT contracts with the Aggregator. All communications with NGT are exchanged with the Aggregator.</p>
<p>Pros</p> <p>Existing communication /contractual relationship between Shipper and Eligible Sites.</p>
<p>Cons</p> <p>Limits potential scope of Eligible Sites (i.e. constraint may result in aggregated load below eligibility threshold).</p>



Existing contractual relationship

<p>Description</p> <p>Shipper A acts as an Aggregator for Eligible Sites within other Shippers' portfolios. All communications with NGT are exchanged with the Aggregator. The Aggregator interacts with each of the Shippers who are required to interact with the respective Eligible Sites.</p>
<p>Pros</p> <p>Existing communication /contractual relationship between Shipper and Eligible Sites.</p>
<p>Cons</p> <p>Maintains burden on individual Shippers. Potentially limits the functions of the Aggregator shipper? Information confidentiality may be an issue. Increased number of hand-offs may compromise timely DSR exercise, requires shippers to do more (feedback received to date has suggested reduction of their role).</p>

Potential Aggregator Contractual Models

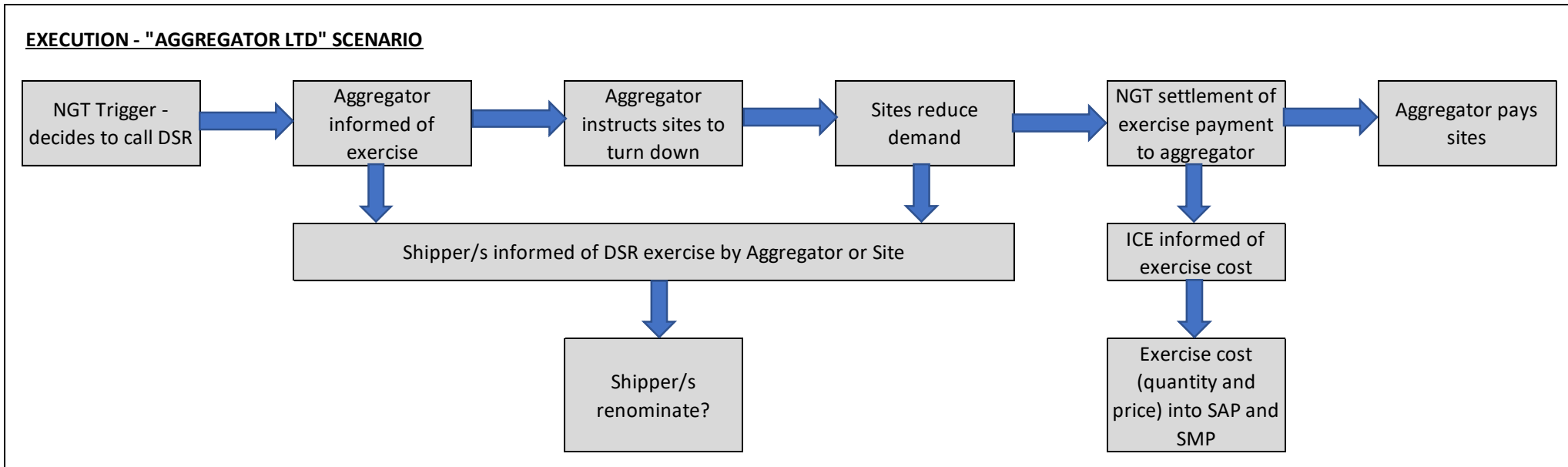
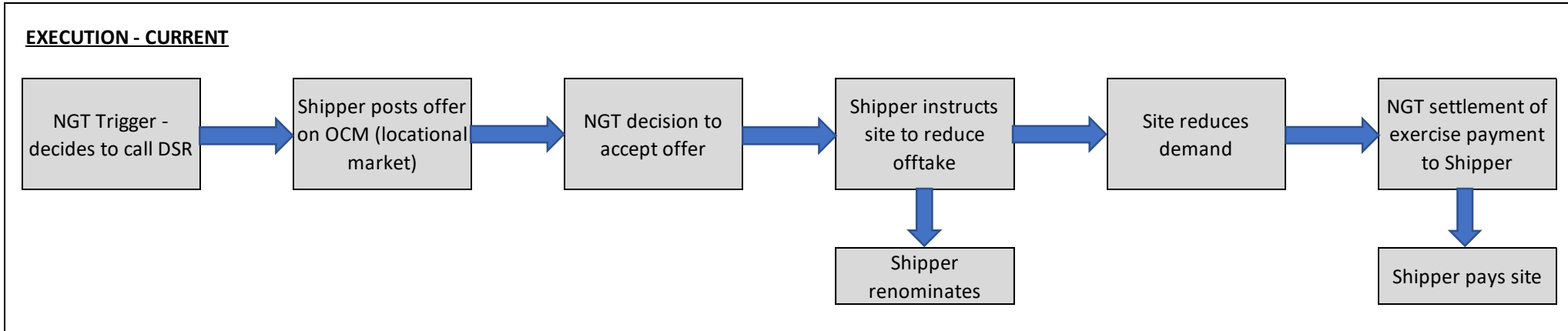


* NGT preferred option

<p>Description</p> <p>A party acts as an Aggregator for eligible sites within a Shipper's portfolio. All communications with NGT are exchanged with the Aggregator. The Aggregator interacts with each of the Eligible Sites who are required to communicate with their Shipper.</p>
<p>Pros</p> <p>Information from sites regarding expected offtake volumes follows existing contractual route. Minimises role of Shipper - onus on set up arrangements on Aggregator creating role value.</p>
<p>Cons</p> <p>Limits potential scope of Eligible Sites (i.e. constraint may result in aggregated load below eligibility threshold). Absence of contractual relationship between Aggregator and Shipper may be of concern to Shipper.</p>

<p>Description</p> <p>A party acts as an Aggregator for Eligible sites within multiple Shippers' portfolios. All communications with NGT are exchanged with the Aggregator. The Aggregator interacts with each of the Eligible Sites who are required to communicate with their respective Shippers.</p>
<p>Pros</p> <p>Information from sites regarding expected offtake volumes follows existing contractual route. Minimises role of Shipper - onus on set up arrangements on Aggregator creating role value. Contractual efficiency - NGT able to access DSR volumes while minimising number of its counterparties (Aggregators).</p>
<p>Cons</p> <p>Absence of contractual relationship between Aggregator and Shipper may be of concern to Shipper. Information confidentiality may be an issue (Aggregator managing data relating to multiple-Shippers' customers).</p>

Potential exercise process



Post-implementation review of Modifications 0822 and 0833

Post implementation review of Modifications 0822 and 0833

- Modifications 0822 and 0833 were urgent Modifications
- We wish to review some of the key components that were introduced to determine whether they remain fit for purpose

Modification 0833

- Enabled shippers to participate in the DSR option tender that do not have OCM access
- If DSR were called, if a shipper holds a DSR option, it could offer DSR by way of an OTC trade rather than OCM
- DSR has not been called this Winter so this Mod has not been tested
- Whilst DSR contractual arrangements remain between NGT and shippers, this Modification could still enable greater DSR volumes than would otherwise be the case, therefore we do not propose any changes at this stage

Review of Mod 0822

- Mod 0822 introduced the DSR options arrangements and extended the window of DSR exercise to when a Margins Notice is in force as well as a GBN

Proposed areas to review:

- Duration and frequency of tender process
- Alternative approaches to baseline a consumer's prevailing offtake level
- NGT assessment process for DSR options
- Shipper obligations to post DSR Market Offers for within-day D-1
- Product optionality

Review of Mod 0822

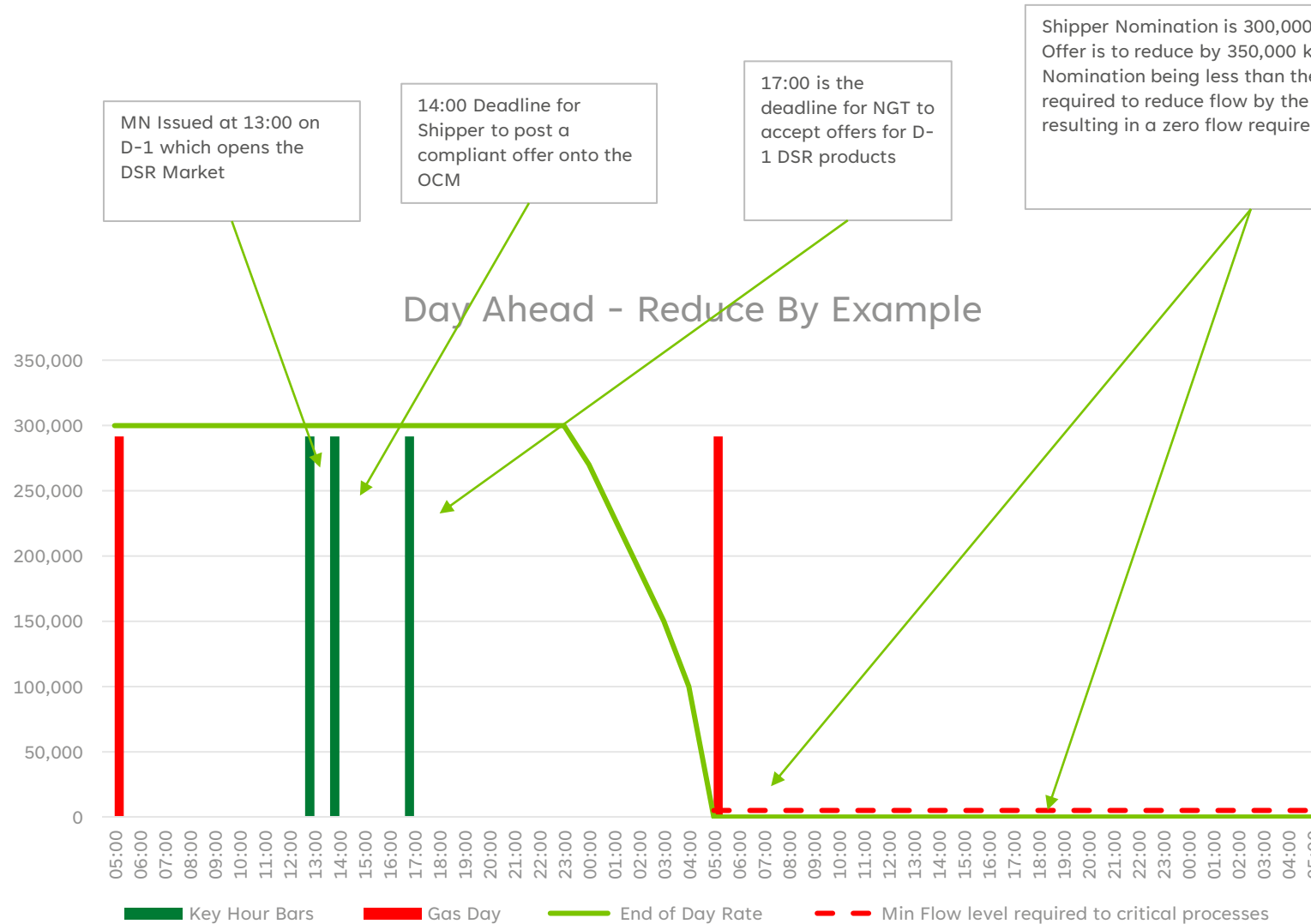
Alternative approach to baselining prevailing offtake level

- Mod 0822 maintained a ‘reduce by’ approach:
 - If DSR is called, Mod 0822 requires the consumer to reduce its end-of-day offtake by the accepted option quantity or the prevailing nomination, whichever is the lesser
- Some industrial consumers that need to maintain a base level of gas offtake have highlighted this as a risk
 - If their demand is lower than normal on the day they are called for DSR, they may be obliged to reduce offtake to zero
- A ‘reduce to’ approach could be an alternative, whereby the consumer commits to offtake not greater than a minimum quantity if DSR is called. The DSR quantity could be determined by:

Consumer’s historical demand* - minimum required offtake * e.g. avg of last 7 days, last month, last winter period

- The ‘historical demand’ measure could be different for assessment and exercise purposes
- Consumer could still offer multiple tranches (different minimum loads at different prices)

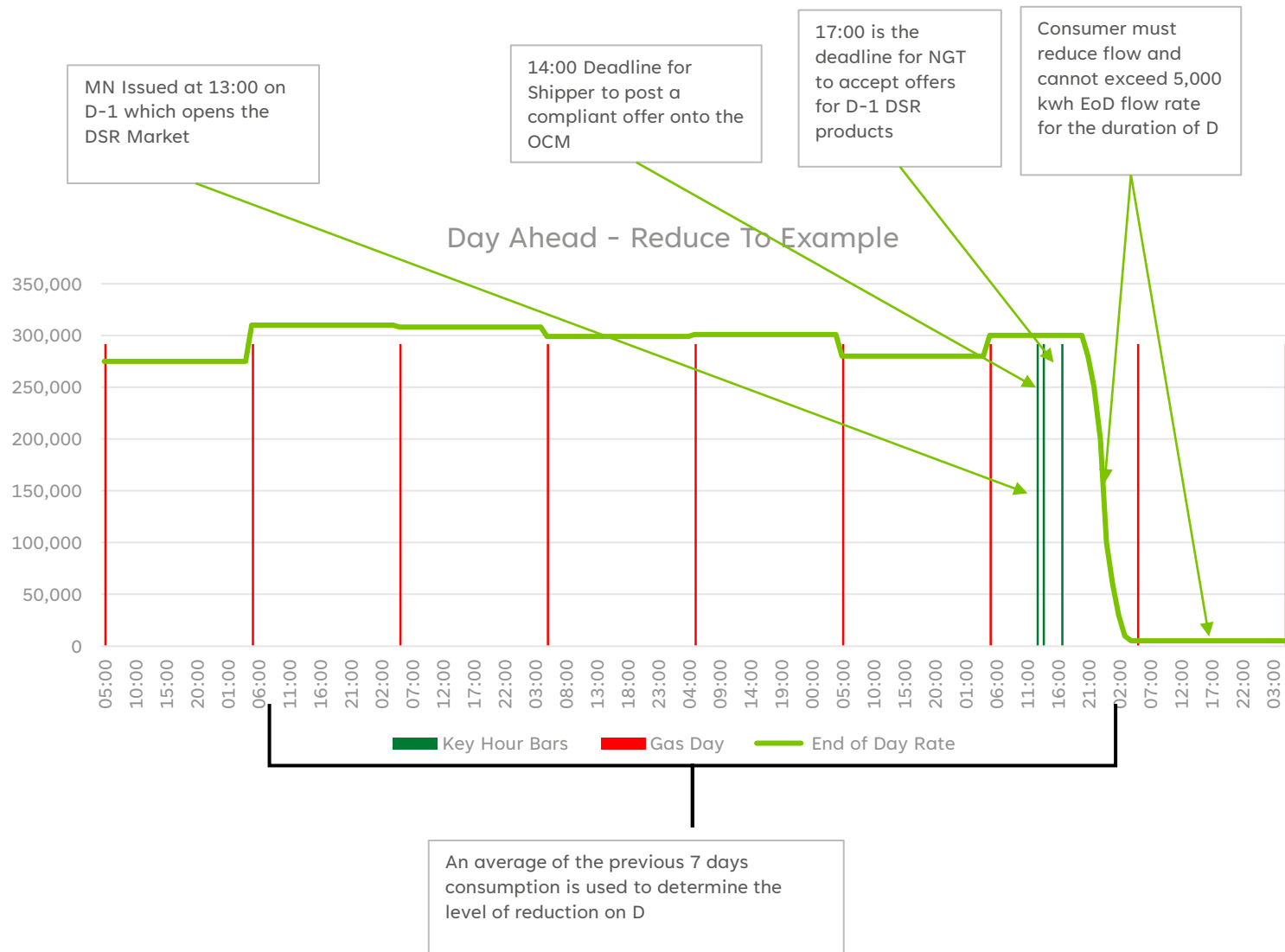
Example: Current 'Reduce By' Arrangements



DSR Option:
Reduce by 350,000 kwh

Prevailing Nomination:
300,000 kwh

Example: 'Reduce to' Arrangement



DSR Offer Details:
Reduce to 5,000 kwh

Average consumption over previous 7 days:
287,423 kwh/d.

Level of reduction:
282,423 kwh

in a "reduce to" scenario, the Shipper has had a DSR Option accepted where their Consumer is required to reduce their consumption to 5,000 kwh. Certainty is provided to the Consumer that they will be able to continue flowing at a specific level even if DSR is called. Therefore, the consumer can maintain a maximum flow of 5,000 kwh/d in order to maintain critical operations.

Assessment of 'reduce to' approach

Pros	Cons
Reduces risk and uncertainty of participating in DSR for consumers with minimum flow requirements	Could result in less actual demand reduction on the day (but equally could be more if prevailing nomination is above the historical average)
DSR participation levels may increase	DSR quantity is 'deemed' rather than observable reduction from x to y on the day, therefore more difficult to understand what has been reduced and what the exercise payment is for
Easier to validate compliance with an exercise instruction	Need to establish the deemed baseline in advance to feed into the tender assessment

Review of 0822 Options Tender

Tender parameters and assessment process

- Industrial consumers have called for greater flexibility in the option tender bidding process
- This could be delivered by introducing more parameters, e.g.
 - Number of consecutive days the site is willing to be called for
 - Maximum frequency to be called in a winter period
 - Ability to specify a minimum level of flow (would be needed anyway for a 'reduce to' approach)
- However, this would bring more variables / complexity into the tender offer, tender assessment and exercise assessment processes
- Assessment is currently based on total option and exercise price
 - This could instead consider individual price elements, e.g. a low option, high exercise price is likely to be more attractive than high option, low exercise

Review of Mod 0822

Tender Duration & frequency

- Currently run annually for DSR options up to 3 years out
- Potential alternative: Mandatory to run once every 3 years, with NGT option to run in Y+1 and Y+2?

Tender Optionality

- Current rules are to offer **either** D-1 **or** within-day DSR on behalf of a consumer
- Greater optionality to enable the same site to offer within-day and D-1 (of which NGT may accept one) could be introduced

Liability for failure to post DSR Market Offer

- Upon the DSR market opening, the shipper is obliged to post offers at the right quantity at the right price within a specified timeframe
- Liability for failure to do so is currently set at 110% of the option payment, scaled based on the ratio of number of days on which the shipper failed to post an offer to total days in the winter period when DSR has been called
- Is this liability proportionate or does it discourage participation?

Review of Mod 0822

Shipper obligations to post DSR Market Offers (within-day and D-1 DSR options)

- 0822 rule state the following in TPD D7.6.2

“ Where a DSR Option is in force in respect of a Winter Period:

(a) on each Day in that Winter Period which falls (partly or wholly) within a Voluntary DSR Period, the User shall:

(i) in the case of the first such Day of such period, within 60 minutes after the time at which (in accordance with paragraph 5.1.1(d)) that Voluntary DSR Period starts, and

(ii) in the case of each subsequent Day (and whether or not its DSR Market Offer for any earlier such Day was accepted), by 06:00 hours on the Day

Post a DSR Market Offer”

- Upon review, these rules are not adequate to cover all potential circumstances...
 - For a within day option where the trigger is by Margins Notice or GBN issued on D-1 (a within day offer can't be placed until the gas day starts, thus breaching the 60 minute rule). The intention was that within-day offers must be placed by 06:00 hrs on the gas day
 - A new Margins Notice would have to be issued on subsequent days if required, hence where this is the trigger and a D-1 option is held the 60 minute obligation should remain

Review of Mod 0822

We therefore consider that if the shipper tender arrangements remain in place for 2023/24 DSR options, the rules in D7.6.2 should be amended to reflect the following table:

Option held	Notification trigger	Shipper obligation - first day	Shipper obligation - subsequent days
Within-day	Margins Notice on D-1	post offer on D by 06:00 on D	post offer on D by 06:00 on D
	GBN D-1	post offer on D by 06:00 on D	post offer on D by 06:00 on D
	GBN within day	post offer for current day within 60 mins of GBN issue	post offer for current day by 06:00 if GBN not withdrawn
D-1	Margins Notice on D-1	post offer on day MN issued for tomorrow within 60 mins of MN issue	post offer on day MN issued for tomorrow within 60 mins of MN issue
	GBN D-1	post offer on day GBN issued for tomorrow within 60 mins of GBN issue	post offer by 09:00* for tomorrow if GBN not withdrawn
	GBN within day	post offer for tomorrow within 60 mins of GBN issue	post offer by 09:00* for tomorrow if GBN not withdrawn

* OCM opens for D-1 trading at 08:00 D-1

Review of Mod 0822

- TPD D7.6.6 states:
- *“National Gas Transmission may not accept a DSR Market Offer posted pursuant to a Day-Ahead Option later than 17:00 hours on the Preceding Day”.*
- To provide certainty to shippers holding D-1 options on the latest time at which they would be obliged to post a DSR Market Offer, we would propose to add a provision that if a Margins Notice is issued later than 16:00 on D-1 then a shipper with a D-1 option is relieved of its obligation to post an offer (but may still elect to do so)