

# 0504: Demand Side Response (DSR) Methodology Implementation

- 01 Modification
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This proposal seeks 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.



The Panel recommends implementation



High Impact:

Shippers, Suppliers, Consumers, National Grid NTS and the Market Operator












Medium Impact:

DNs



Low Impact:

None

| Contents   |                  |  Any questions?   |
|--|------------------|--|
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| <b>4 Relevant Objectives</b>   | <b>9</b>         | Proposer:<br><b>Debbie Brace</b>   |
| <b>5 Implementation</b>  | <b>10</b>        |  email address<br><b><a href="mailto:Deborah.brace@nationalgrid.com">Deborah.brace@nationalgrid.com</a></b>     |
| <b>6 Impacts</b>   | <b>10</b>        |  telephone<br><b>01926 653233</b>   |
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| <b>9 Panel Discussions</b>   | <b>12</b>        |  telephone<br><b>01926 653233</b>   |
| <b>10 Recommendation</b>   | <b>13</b>        | Additional contacts:<br><b>Gareth Davies</b>   |
| <b>About this document:</b>  |                  |  email address<br><b><a href="mailto:Gareth.davies5@nationalgrid.com">Gareth.davies5@nationalgrid.com</a></b> |
| This Final Modification Report was considered by the Panel on 17 December 2015.                              |                  |  telephone<br><b>01926 654850</b>   |
| The Panel determined that this modification should be implemented.   |                  |  |
| The Authority will consider the Panel's recommendation and decide whether or not this change should be made. |                  |  |
| The Proposer recommends the following timetable:   |                  |  |
| Amended Modification considered by Workgroup   | 07 October 2015  |  |
| Workgroup Report presented to Panel  | 19 November 2015 |  |
| Draft Modification Report issued for consultation  | 19 November 2015 |  |
| Consultation Close-out for representations   | 10 December 2015 |  |
| Final Modification Report published for Panel  | 11 December 2015 |  |
| UNC Modification Panel decision  | 17 December 2015 |  |

# 1 Summary

## Is this a Self-Governance Modification?

This is not a self-governance Modification Proposal because if it is implemented:

- There may be a material impact on Transporters, Shippers, Suppliers and Consumers in respect of any settlement costs associated with any DSR volume offered; and
- The Modification is seeking to implement the DSR methodology, as directed by Ofgem on 21 September 2015, which may help to reduce the likelihood of entering a Gas Deficit Emergency.

## Is this a Fast Track Self-Governance Modification?

The Proposal does not meet the Fast Track Self-Governance criteria due to the material impacts for a number of parties.

## Why Change?

In February 2014 Ofgem published its Final Policy Decision Consultation on the Security of Supply (SoS) Significant Code Review (SCR). As part of this, Ofgem introduced a new Special Condition (SC) 8I — 'Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning' to National Grid's NTS Transporter Licence. This required National Grid NTS to develop a methodology in consultation with industry, for assessing and accepting Demand Side Response Offers, which in turn was approved by Ofgem in May 2015.

As directed, National Grid NTS subsequently conducted a web-based DSR trial during July 2015 and a DSR trial report was issued to Ofgem highlighting that no changes were needed to the draft methodology. On 21 September 2015 the Authority directed National Grid NTS to implement the DSR Methodology.

## Solution

This Modification implements the approved DSR Methodology introducing new text into UNC TPD Sections D, Q and V to reflect the process to be undertaken when a Gas Deficit Warning (GDW) occurs.

In summary, the DSR Methodology provides Shippers with the ability to post DSR Offers on the Trading System on behalf of eligible end consumers. DSR Offers will be accepted solely by National Grid NTS in the run up to a Gas Deficit Emergency, providing National Grid NTS with an additional tool to reduce gas demand. Accepted DSR Offers will result in a DSR payment, remitted via Shippers, to eligible end consumers for their voluntary reduction in gas demand.

It will be necessary to introduce a DSR flag to the Trading System (Trading System Operator) and for the annual provision of data to the Authority.

## Relevant Objectives

The Proposer considers that implementation of this Modification would better facilitate achievement of Relevant Objectives a), b) and c).

## Implementation

A specific implementation date for this Modification is not proposed as the licence obligation does not specify an implementation date for DSR. However, Ofgem has indicated in the [DSR Methodology decision letter](#) that it anticipates that DSR will be in place for winter 2016/2017. Therefore to allow Shippers sufficient time to introduce the necessary agreements, implementation of this Modification is to occur:

- On 1<sup>st</sup> March 2016 if a decision to implement is issued by 22<sup>nd</sup> February: or

- Implementation on 1<sup>st</sup> April 2016 if a decision to implement is issued by 25<sup>th</sup> March 2016 with an effective date of 1<sup>st</sup> October 2016. For the avoidance of doubt, this means that system functionality will be available from 1<sup>st</sup> October 2016. .

If a decision to implement is received after 1 April 2016, then implementation is to follow 5 business days later.

## **Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

There is no impact on any other industry change.

## **2 Why Change?**

In February 2014 Ofgem published its Final Policy Decision Consultation on the Security of Supply (SoS) SCR. It identified that the gas market could benefit from large consumers reducing demand voluntarily ahead of a possible gas supply emergency. It was noted that although shippers have the ability to enter into commercial negotiations for voluntary DSR with larger consumers, market participants expressed doubts that voluntary interruption would emerge on its own accord. As a result a new licence obligation SC 8I – ‘Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning’ was placed on National Grid Transmission to create a DSR methodology in conjunction with industry consultation, which included a submission of a consultation report to Ofgem, and the completion of an industry trial. All of these tasks have been successfully achieved over the past 18 months.

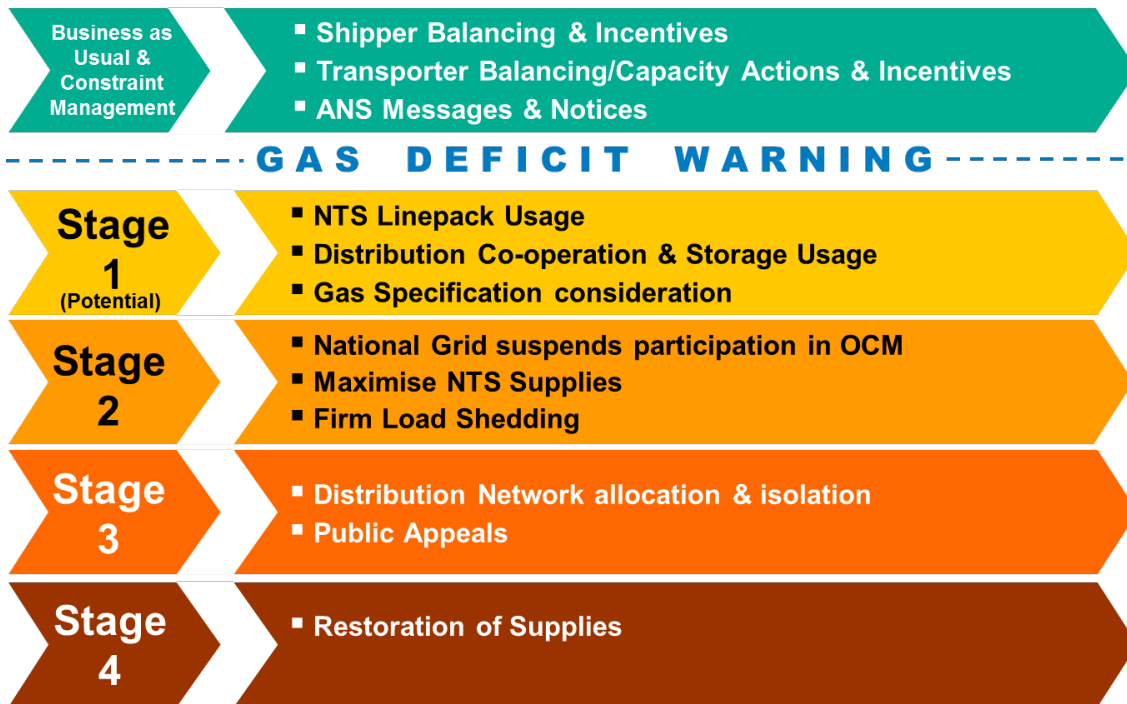
On 21 September 2015 the Authority directed National Grid NTS to implement the DSR Methodology. This Modification breaks down the Methodology into specific requirements for Code parties in order for DSR to be introduced into UNC.

DSR is supported by a number of documents, including the Consultation, the DSR Framework and Methodology, Frequently Asked Questions and DSR Trial Report which are available on the Joint Office and National Grid NTS websites.

For the avoidance of doubt, DSR service agreements (between consumers and shippers) are not provided for within this Modification. As it was determined during the development of the Methodology such commercial arrangements were out of scope.

Diagram 1 provides an overview of the stages from a Gas Deficit Emergency. Shippers will be able to offer Demand Side Response (DSR) from a Gas Deficit Warning through to the end of a Stage 1 Gas Deficit Emergency (GDE). Further information has been included within the Solution section to describe the process more fully. This diagram is not part of the Modification and has been added to provide further clarity of the solution.

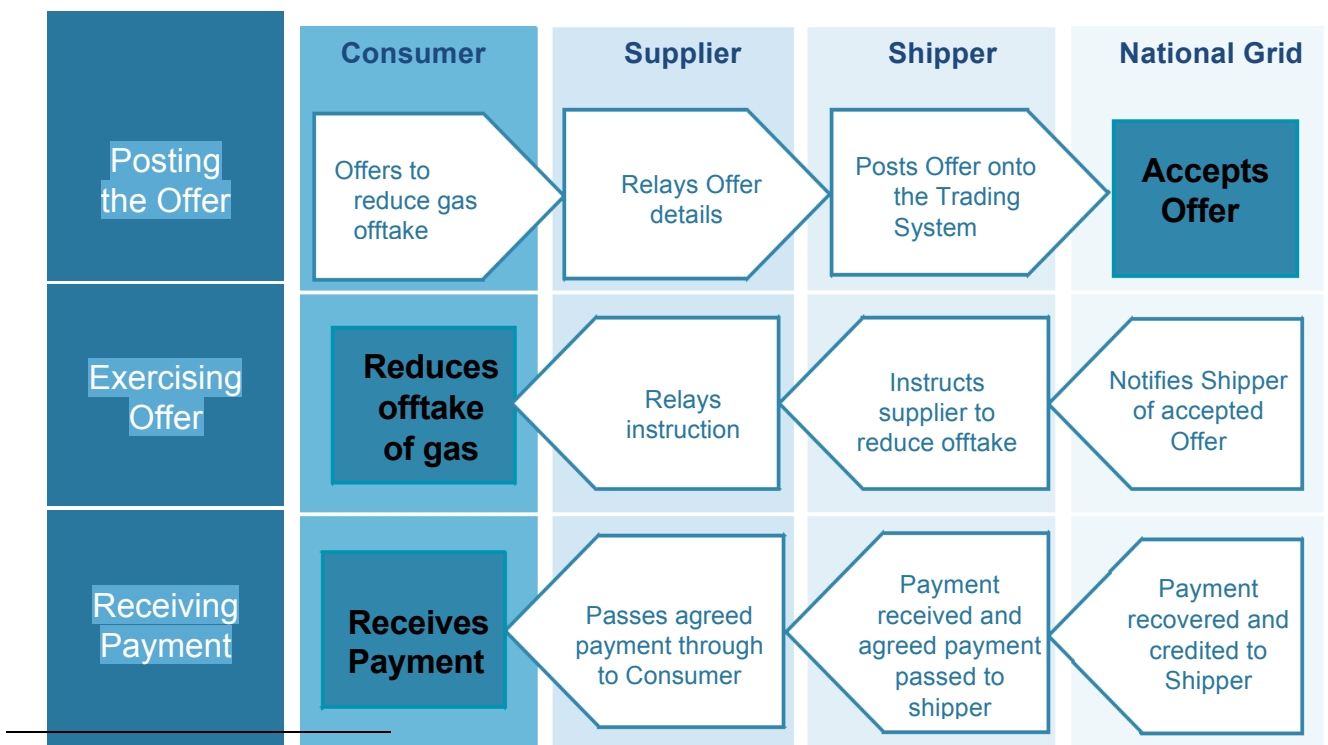
Diagram 1 – Gas Deficit Emergency Stages



### 3 Solution

This modification implements the DSR Methodology<sup>1</sup> which at a high level involves introducing new text into UNC TPD Sections D, Q and V to reflect the process to be undertaken when a Gas Deficit Warning (GDW) is called.

**How will DSR work?** - Diagram 2 – High level process handoffs which has been provided to clarify the process and does not form part of the solution.



<sup>1</sup> In accordance with National Grid NTS licence Special Condition 8I [DSR Methodology](#)

## Explanation of terms:

The terms below aid in the explanation of the Modification and may not appear in the legal text.

- 'Demand Side Response', 'DSR' means the reduction in an eligible **Daily Metered Consumer's (DMC's)** rate of gas offtake in the period following declaration of a **GDW**.
- 'DSR Methodology' as approved by Ofgem on 21 September 2015.
- 'DSR Offer' means each individual daily or multi day trade DSR Offer submitted on to the **Trading System**.
- 'DSR Period' is the period between the **GDW** being declared for the **Gas Flow Day** and the earlier of the revocation of the GDW or the end of GDE Stage 1. This is the period where National Grid NTS may accept DSR Offers.
- 'DSR Product' means the arrangements by which all DSR Offers will be placed and accepted as set out in the DSR Methodology.
- 'Eligible DMC' is a Supply Point whose **Annual Quantity** is greater than 58,600,000 kWh and able to offer a minimum DSR Offer energy quantity of 100,000 kWh (per day) in any one DSR Offer.
- 'Eligible Supply Point' is a '**DMC**' customer as defined in UNC TPD Section A4.5.
- 'Tick Down' is where a DSR Offer may be offered with a reducing-down feature that reduces over time the volume of DSR available on the **Gas Flow Day** prior to it being accepted.

## DSR Offer – Posting and Accepting

A Shipper will place a DSR Offer, effectively offering to sell title to National Grid NTS in its role as Residual Balancer, which reflects the DSR energy quantity and price agreed for a reduction in offtake from the NTS. The Shipper will post the DSR Offer for an Eligible Supply Point onto the **Trading System** locational market. DSR Offers may be placed, updated or withdrawn, at any time up to the declaration of a **GDE Stage 2**. The **Trading System's** locational market will be updated to include an identifying flag which will be used to identify DSR Offers to National Grid NTS.

A DSR Offer will be for a specified offtake reduction energy quantity (kWhs) at an Eligible DMC (a tranche).

DSR Offer can be presented as either;

- Daily for any Gas Flow Day in accordance with UNC TPD Section D2.2.1 (d) a 'Locational Market Transaction' ; or
- Multiday undertaken in accordance with the UNC TPD Section D4 – Multi-Day Balancing Actions

DSR can be offered in separate tranches of energy, which may be priced individually, although any DSR Offer must be greater than 100,000 kWh. The daily DSR Offer may be offered in the form of:

- A DSR Offer that is input on a daily basis; or
- a 7 Day profile of daily offers which Shippers can submit differing values for each day of the week if required. The 7 day profile of daily offers will be replicated automatically until revised or withdrawn.

Diagram 3 contains a visual representation of the different types of DSR Offers available to Shippers.

The Trading System Locational market will be revised from a market in which Shippers may post and accept Market Offers to, a market where Market Offers including DSR Offers can only be accepted solely by National Grid NTS. Following the declaration of a **GDE Stage 2** National Grid NTS will not accept any further DSR Offers and where declaration of a **GDE Stage 2** occurs within a **Gas Flow Day** all DSR Offers previously accepted will apply.

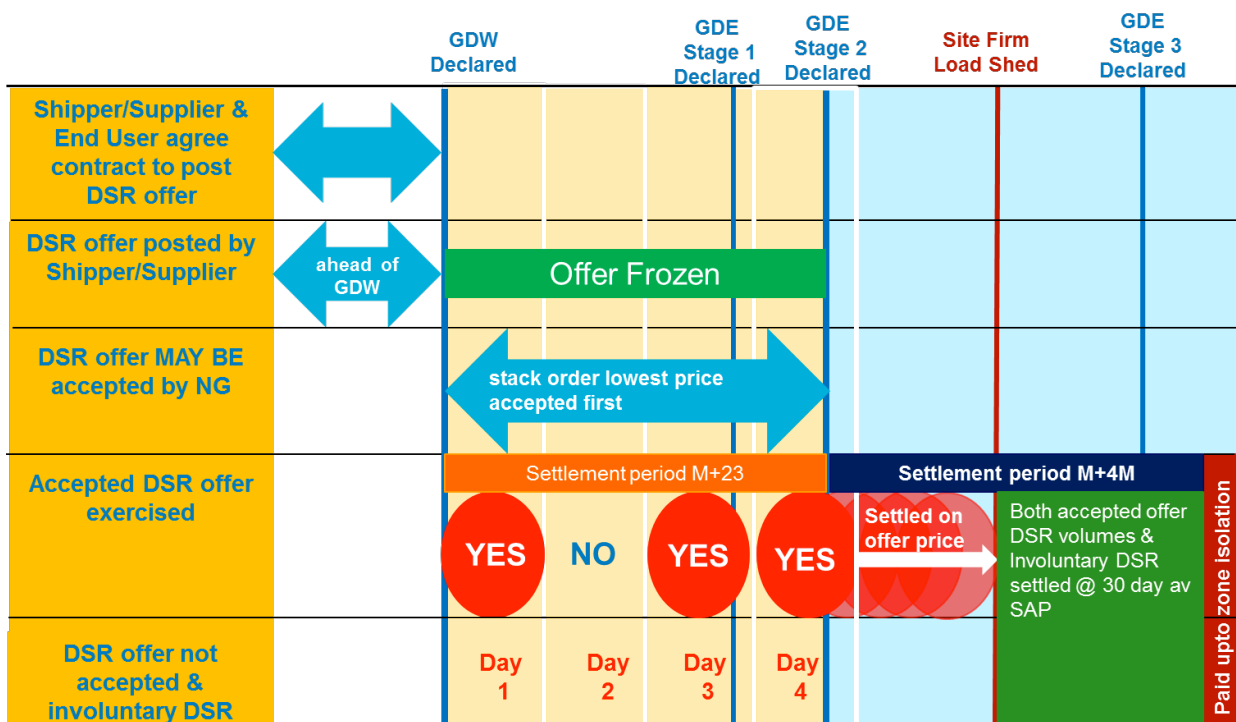
DSR Offers will not be visible on the **Trading System** to all market participants including National Grid NTS until a **GDW** for a **Gas Flow Day** has been declared. When a DSR Offer is accepted it will be regarded as a 'Locational Market Transaction' that will be undertaken in accordance with UNC TPD section D2.2.1 (d). National Grid NTS will notify the **Trading System Operator** when a **GDW** has been declared and when it has been revoked.

All available DSR Offers will be displayed in a price order consistent with all other OCM markets. National Grid NTS will accept lowest priced DSR Offers first in stack order, making an assessment across the **Trading System** Title, Physical and Locational Markets. When National Grid NTS accepts a DSR Offer the Shipper will be notified through existing OCM notification processes. The **Gas Balance** position will require adjusting by the relevant Shipper to reflect the completed gas trade on the **Trading System**.

As with all Locational Market Offers accepted on the **Trading System**, the Shipper will notify National Grid NTS of the intent to reduce offtake at the Eligible DMC by submitting a re-nomination at the Eligible DMC Supply Meter Point, as prescribed in UNC TPD Section D2.3 – Contract Re-nominations. For a DSR Offer on a 'Tick Down' option, once the DSR Offer reduces below the allowed minimum quantity the DSR Offer will be withdrawn from the Trading System automatically for the relevant **Gas Flow Day**.

For clarity only, and as highlighted in the DSR Methodology, the acceptance of a DSR Offer by National Grid NTS does not affect, or set aside, the **Network Emergency Coordinator's (NEC)**, National Grid NTS's or other relevant Transporters' rights or obligations when undertaking their duties under the provisions set out in 'The Gas Safety (Management) Regulations 1996 - NEC Safety Case'.

Diagram 3 - The following diagram is for illustrative purposes only. It demonstrates daily and multi day DSR offers in operation alongside payment post a **GDW**.



## Payment Arrangements

In respect of the **Gas Flow Day**, or **Gas Flow Days**, that the DSR Offer was accepted for, payment will be made in accordance with the accepted DSR Offer price. For subsequent **Gas Flow Days** during **GDE** Stage 2, payment at 30 day average **SAP** for the accepted DSR energy quantity will be made up to the point that the relevant site has been instructed to **Firm Load Shedding (FLS)**, by National Grid NTS.

In the event that an accepted DSR Offer contract duration runs beyond **FLS** e.g. multi day, the payment will continue to be paid in accordance with the agreed DSR Offer price until the contract duration is extinguished. Where the Eligible DMC is subject to **FLS** the prevailing DSR payment arrangements will apply in accordance with UNC provisions, in which UNC section Q 6.4 - 'DSR Payments', for each **Gas Flow Day** or part thereof of curtailment, of 30 Day Average SAP (price set from the **Gas Flow Day** prior to entering Stage 2) multiplied by the energy quantity that was subject to **FLS**.

A visual representation of these arrangements is contained within Diagram 3 which has been included for clarity and do not form part of the solution.

## Settlement Arrangements

For the purposes of payment and settlement arrangements all accepted DSR Offers will be regarded as **Market Balancing Actions (MBA)** taken by National Grid NTS. These payments will be settled with the relevant Shipper.

Where National Grid NTS accepts a DSR Offer on a **Gas Flow Day** for which it later declares a **GDE** Stage 2, the DSR Offer acceptance shall continue to be exercised throughout **GDE** Stage 2 and later emergency stages. Payments associated with accepted DSR Offer energy quantities will be settled as follows:

- For each relevant **Gas Flow Day** after the declaration of **GDE** Stage 2, all settlement of DSR Offer energy quantities accepted prior to the declaration of entry into **GDE** Stage 2, will NOT be executed within the settlement timescales prescribed for **MBA** settlement arrangements. These DSR Offer payments will be settled in accordance with UNC TPD Section Q 6.4.7 - '**DSR Payments**', and will be settled within the same timescales and under the funding arrangements provided for DSR Payments relating to Involuntary DSR through **FLS**.
- Accepted DSR Offers will receive **DSR Payment**, at the DSR Offer price multiplied by the energy quantity accepted, for each **Gas Flow Day** the site is curtailed, up to the day on which the site is subject to **FLS**.
- After **FLS** site will receive **DSR Payments**, for the total energy quantity of the accepted DSR Offer (including both voluntary and involuntary DSR) in accordance with UNC Section TPD Q 6.4.7.

## DSR Methodology Suspension and Termination

Upon direction from Ofgem National Grid NTS will have the ability to notify and cease DSR.

## Reporting

DSR Offers cannot be viewed by National Grid NTS or the market until a GDW is called. Therefore, in order to gain visibility and an understanding of whether the DSR Methodology is working it will be necessary for the Trading System Operator to provide DSR Offer data to National Grid NTS on an annual basis who will then publish an 'Annual Report' within 15 business days of the 1st April on its website.

The report will contain for illustrative purposes only as a minimum the following information:

- Number of offers received;



- Total volume; and
- Range of prices offered.

For clarity when a GDW occurs, National Grid NTS will provide data (under SMPS) within the Procurement Guidelines Report (table 1 6. Gas Balancing OCM Locational Trades). This does not form part of the Modification or the legal text.

The Authority will request annual and ad hoc data from the Trading System Operator pertaining to DSR Offers. The Trading System Operator will facilitate the provision of such DSR Offer data.

| User Pays  |  |
|--|--|
| Classification of the modification as User Pays, or not, and the justification for such classification.  | No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. | N/A  |
| Proposed charge(s) for application of User Pays charges to Shippers.   | N/A  |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.                                   | N/A  |

## 4 Relevant Objectives

| Impact of the modification on the Relevant Objectives:   |                   |
|--|-------------------|
| Relevant Objective   | Identified impact |
| a) Efficient and economic operation of the pipe-line system.   | Positive          |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(ii) the pipe-line system of one or more other relevant gas transporters.   | Positive          |
| c) Efficient discharge of the licensee's obligations.  | Positive          |
| d) Securing of effective competition:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | None              |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.   | None              |
| f) Promotion of efficiency in the implementation and administration of the Code.   | None              |
| g) Compliance with the Regulation and any relevant legally binding decisions of  | None              |

**a) Efficient and economic operation of the pipe-line system and**

**b) Coordinated, efficient and economic operation of the combined pipe-line system**

These objectives are furthered as we believe that DSR will facilitate Consumers who may otherwise not respond to a Gas Deficit Warning, reducing demand when the system is in a significant Supply deficit. This may provide additional volumes that in some instances would be sufficient to prevent escalation into a Gas Deficit Emergency. The additional response may therefore demonstrate an improvement to the efficient and economic operation of the pipe-line system during specified times where the system is stressed. It may provide an improvement in the coordinated efficient and economic operation of the combined pipe-line system as it could enable DSR from System Points within the LDZs as well as System Points directly connected to the NTS. This Modification facilitates the provision of voluntary gas demand reductions that provide an economic solution.

**c) Efficient discharge of the licensee's obligations.**

This objective is furthered by this Modification, which has been raised as a result of Ofgem's direction 21 September 2015. Special Condition; Special Condition 8I —'Development and Implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning' of National Grid Transmission Gas Transporter Licence. Therefore, the Modification seeks to facilitate the efficient discharge of the Licensee's obligations by completing the implementation of the new DSR arrangements as per the Licence conditions.

## 5 Implementation

A specific implementation date for this Modification is not proposed, as the licence obligation does not specify an implementation date for DSR. However, Ofgem has indicated in the [DSR Methodology decision letter](#) that it anticipates that DSR will be in place for winter 2016/2017. Therefore to allow Shippers sufficient time to introduce the necessary agreements, implementation of this Modification is to occur:

- On 1<sup>st</sup> March 2016 if a decision to implement is issued by 22 February; or
- Implementation on 01 April 2016 if a decision to implement is issued by 25 March 2016

with an effective date of 01 October 2016.

For the avoidance of doubt, this means that the system functionality will be available from 01 October 2016.

If a decision to implement is received after 01 April 2016, then implementation is to follow 5 business days later.

## 6 Impacts

### **Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

There is no impact on any other industry change.

## 7 Legal Text

### Text Commentary

A Legal Text explanatory table has been published alongside this Report.

### Text

National Grid NTS have produced amended TPD Sections D, Q and V, which are published alongside this Report. The Workgroup considered the Text and are satisfied that it meets the intent of the modification.

## 8 Consultation Responses

Of the four representations received implementation was unanimously supported.

Representations were received from the following parties:

| Organisation        | Response | Relevant Objectives                          | Key Points  |
|---------------------|----------|--|---|
| British Gas Trading | Support  | a - positive<br>b - positive<br>c - positive | <ul style="list-style-type: none"><li>• Notes as directed by the Authority, this modification is seeking to give effect to the DSR methodology as developed by the 0504 workgroup.</li><li>• This modification provides a means by which Shippers can place DSR offers on the Trading System on behalf of their suppliers/customers and provide the necessary contractual governance for the key DSR processes.</li><li>• Acknowledges that the DSR methodology was subject to a separate industry consultation and that its merits or demerits are not for consideration here.</li><li>• Considers implementation should be in sufficient time, ideally no later than 01 March 2016, to provide all parties with confidence to discuss, agree and prepare DSR offers for posting on the Trading System from 01 October 2016.</li></ul> |
| National Grid NTS   | Support  | a - positive<br>b - positive<br>c - positive | <ul style="list-style-type: none"><li>• Explains that this modification sets out the arrangements as described in the Gas DSR Methodology, developed inline with the principles of SC 8I, and approved by Ofgem on the 21 September 2015 following industry consultation during December 2014 and January 2015.</li><li>• Points out that the solution utilises existing system functionality, therefore minimising change, which in turn provides an efficient and economical solution.</li><li>• Explains that DSR introduces an additional tool to National Grid NTS for reducing gas demand to assist in the prevention of a Gas Deficit Emergency (GDE).</li></ul>   |

|                           |         |  |  |
|---------------------------|---------|--|--|
|                           |         |  | <ul style="list-style-type: none"> <li>Notes that if a decision to implement is received after 01 April 2016, then implementation is to follow 5 business days later.</li> </ul>   |
| RWE Supply & Trading GmbH | Support | a - positive<br>b - positive<br>c - positive | <ul style="list-style-type: none"> <li>Acknowledges that the DSR methodology that formed the basis for this modification has been subject to separate development, consultation and approval.</li> <li>Accepts that the modification will implement the approved DSR methodology into the UNC and meets National Grid's Licence obligation SC 8I.</li> <li>Agrees with the implementation timetable suggested to allow sufficient lead-time for the appropriate commercial and contractual framework between eligible end-users and shippers/suppliers to be established ahead of winter 2016/17.</li> <li>Believes that there maybe some legal costs to develop contracts.</li> </ul> |
| Statoil                   | Support | a - positive<br>b - positive<br>c - positive | <ul style="list-style-type: none"> <li>Acknowledges that the DSR methodology was consulted some time ago and that its merits are not for discussion in this modification.</li> <li>Whilst unsure of potential uptake, they nevertheless perceive DSR to be a good thing, hopefully becoming a buffer preventing emergency cash out hitting £14/therm.</li> </ul>   |

Representations are published alongside the Final Modification Report.

## 9 Panel Discussions

The Panel Chair summarised that this Modification seeks to implement the approved DSR Methodology by introducing new text into UNC TPD Sections D, Q and V to reflect the process to be undertaken when a Gas Deficit Warning (GDW) occurs. The DSR Methodology provides Shippers with the ability to post DSR Offers on the Trading System on behalf of eligible end consumers. These DSR Offers will be accepted solely by National Grid NTS in the run up to a Gas Deficit Emergency, providing National Grid NTS with an additional tool to reduce gas demand. Accepted DSR Offers will result in a DSR payment, remitted via Shippers, to eligible end consumers for their voluntary reduction in gas demand.

Members considered the representations made, noting that implementation was unanimously supported in the four representations received.

Members considered the relevant objectives, agreeing that implementation would further objectives a) and b) because DSR will facilitate a response by consumers, who may otherwise not respond to a Gas Deficit Warning, in reducing demand when the system is in a significant supply deficit. This would help transporters to manage any such deficits, contributing to efficient and economic operation of both the Transmission and Distribution networks.

Members then went on to consider relevant objective c), agreeing that implementation would further this objective on the grounds that the modification seeks to facilitate the efficient discharge of the Licencee's

obligations<sup>2</sup> by completing the implementation of the new DSR arrangements as per the Licence conditions.

Members voted with 7 votes in favour (out of a possible 10), to recommend implementation of Modification 0504.

## 10 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0504 should be made.

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<sup>2</sup> In accordance with Ofgem's direction dated 21 September 2015 – Special Condition; Special Condition 8I – Development and implementation of a Demand Side Response Methodology for use after a Gas Deficit Warning.