



Gas Demand Side Response Methodology

Consultation Report 2020/21

March 2021

nationalgrid

Gas Demand Side Response Methodology Consultation Report 2020/21

This report contains the outcome of National Grid's recent consultation undertaken in respect of the Gas Demand Side Response (DSR) Methodology. This report and the preceding consultation have been prepared in accordance with Special Condition 8I of our Gas Transporter Licence.

Background

The Gas DSR Methodology sets out the details of the DSR product. DSR provides an additional 'route to market' through which gas consumers can offer to turn down their consumption of gas at times of gas system stress in return for a payment. On 21st September 2015, the Authority directed National Grid NTS to implement the DSR Methodology effective from 1st October 2016.

Special Licence Condition 8I¹ requires National Grid to annually review the DSR Methodology in consultation with the industry.

Views Received

We received one response to this year's Gas DSR Methodology Consultation.

This respondent believed that National Grid had designed DSR arrangements that met the requirements of its Special Licence Condition 8I, but that the DSR principles are blockers to using DSR. However, the respondent did not identify which DSR principles are blockers to using DSR. This respondent did express the view that option and exercise prices should be permitted to make DSR a more suitable market product and that the current lack of option prices is a barrier to DSR being offered. The respondent further notes that both option and exercise prices are a feature of the equivalent electricity scheme.

National Grid Response

The respondent considered that the DSR principles are blockers to DSR because they do not provide for option fees to be paid to DSR market participants. We note that this issue was also raised in the survey launched by the Gas Security Group in June 2019, in which it sought views from industrial gas users on potential reforms to Gas DSR arrangements, including the introduction of option payments after the conclusion of an annual gas DSR auction. At present, we are not aware that the volumes of DSR that might be offered from industrial and commercial sites would be sufficient to warrant a review of the rules with a view to reform in the way suggested by this consultation respondent. Our understanding is that some industrial processes require continuous operation which is inconsistent with a rapid response lead-time to turn down gas usage, which is a key capability required for DSR market participants.

Whether National Grid should offer option prices or exercise prices only was an issue that was discussed at the time that the Gas DSR arrangements were designed. The question for this consultation is whether such a reform would better meet the DSR principles, specifically, in our view, principle (h) which is to

¹ From 1st April 2021, the amended reference will be Special Licence Condition 9.22
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“ensure that Demand Side Response is procured in a manner consistent with the Licensee’s duties under the Act and, in particular, the Licensee’s obligation to operate the pipe-line system to which this Licence relates in an efficient, economic and co-ordinated manner.”

When Gas DSR was being developed, National Grid commissioned an external cost/benefit analysis to assess the viability of option fees within three different potential models for how the arrangements might operate. It was recognised that option fees could provide certain benefits; they might encourage greater volumes of DSR to be offered and provide National Grid with a view of what DSR volumes were available prior to the declaration of a Gas Balancing Notification. However, this work concluded that option fees would result in a net cost to the industry because of the low probability of their exercise being required. National Grid is not currently aware of any factors that would change this conclusion and therefore we do not at this time consider that such a reform would better meet the current DSR principles.

We recognise that option and exercise prices are a feature of the equivalent electricity scheme. In the electricity arrangements, there is a Security and Quality of Supply standard which National Grid ESO has an obligation to meet. This requires National Grid ESO to assess the electricity security of supply risks based on the level of system margin, determine a quantity of reserve that is needed to cover those risks and contract for services to cover the identified requirement. Option and exercise prices are typically a feature of these contracted services, not because such a structure is mandated but rather as a commercial decision by the ESO to balance the need to secure demand turndown with the optimisation of procurement costs and implement a contract structure proportionate to the risk. No such equivalent requirement currently exists for National Grid in gas arrangements.

Whilst we therefore do not currently propose to initiate a reform of Gas DSR arrangements to include option prices, we wish to highlight that National Grid’s annual tender to procure Operating Margins services remains a means by which demand side participation can be accommodated on this basis. We have observed a growth in the level of participation from demand reduction tenderers in recent years for OM services and National Grid will this year review the OM arrangements in conjunction with stakeholders to determine whether there is a case for changing the scope of insurance that this provides against gas shortages.

As option and exercise prices are available for Operating Margins, this could assuage the respondent’s concerns regarding DSR, and offers another route for sites to benefit from involvement in a National Grid service to mitigate the potential for adverse effects at times of system stress.

Conclusions and Final Proposals

At this time, we do not consider there to be any revisions to the Demand Side Response Methodology that would better achieve the Gas DSR Methodology Principles.

Next Steps

The Demand Side Response Methodology will not be updated, in line with our final proposal, unless Ofgem objects. The methodology is published on the National Grid website at <https://www.nationalgridgas.com/balancing/demand-side-response-dsr>

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