



Ofgem
9 Milbank
London
SW1P 3GE

24th September 2013

Dear Sir/Madam,

Re: Gas security of supply significant code review – Demand side response tender consultation

Gazprom Marketing & Trading Limited (GM&T), as an active shipper on the GB gas network welcomes the opportunity to respond to Ofgem's consultation on the demand side response tender process.

A key concern of GM&T is that there appears to be a determination to bring the proposed measures in to force by a strict Winter 15/16 deadline, with any issues arising being dealt with through an iterative process in subsequent years. While this may eventually lead to the most efficient measures being in place, the risk is that if a GDE does occur within the next few years, the arrangements in place will not be fit for purpose and may cause more harm than good. As such, it is recommended that Ofgem take the time to work through proposals which may have more complexity to them, but will be more robust when introduced.

Rationale for the tender

A DSR tender is in principle an appropriate inclusion as a measure to assist in the reduction of gas consumption in a time of system stress, and GM&T support this process being run by the SO. However, as the DSR exercises will feed in to the SMP_{BUY} price, it is important that the mechanism act in such a way as to not distort market behaviour. (Additional detail below)

Key design issues

While consideration has clearly been given to the design issues of the DSR tender process, they need to be worked through in more detail. The main issue is the possibility that a poorly designed tender may distort market prices and that exercised DSR may accelerate, rather than mitigate a GDE.

It is clear that CCGTs could offer a very large volume of voluntary load shedding were DSR bids to be accepted and exercised, mitigating the volumetric impact of a GDE. However, while there have been concerns raised about exclusion being discriminatory, the fact that the obligations CCGTs will have under EMR to deliver power, inclusion in the DSR tender will be conflicting and will lead to either non-participation or very high, reflecting EMR penalties, and so may skew the behaviour of DSR bids unless a more complex tender process can be worked up, along the lines of the Operating Margins tenders.



Another design issue is the timing of exercise. Sufficient time must be given to enable shippers and traders to take advantage of the OCM remaining unfrozen in order to respond without intervention from the exercise of DSR in order that the cash-out price is not heavily distorted and beyond market sentiment, assuming liquidity robustness criteria is met.

The straw men

The main issue with all of the straw men proposals is the administered cash-out price in stage 3 of £14/Th, the rationale for this seeming to be that consumers impacted by network isolation should be compensated at the VOLL calculated by Ofgem of £14/Th.

It may be more efficient for the stage 3 cash-out price to not be administered at this level, and the compensation given is equal to the total funds collected from short shippers divided by the number of consumers to be compensated.

An uncapped DSR would be preferable if there was not an administered price set in stage 3. However it is difficult to see how in practice an uncapped price and administered price can both work together in the same mechanism.

Overall, there has been much speculation on the uncertain bidding behaviour of certain parties given the various proposals; therefore it would seem prudent to establish a more detailed and robust procedures in terms of the bid sizes accepted, rationale and methodology behind any volume cap (if introduced) etc and carry out scenario analysis or trial tender runs. The straw men in their current form do not give full assurance that bids will be made according to genuine VOLL.

Please feel free to get in touch with any queries.

Yours faithfully,

Ric Lea

**Regulatory Affairs
Gazprom Marketing & Trading Limited**