

Gas Security of Supply Significant Code Review – Final Policy Decision

Consultation Response

Energy UK is the trade association for the energy industry. We represent over 80 members made up of generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and investing in 2012 more than £11 billion in the British economy.

Energy UK welcomes the opportunity to provide comments on the business rules and drafting supporting cashout reform. However in this instance we will limit our comments to the proposed licence condition to develop a demand side response (DSR) methodology.

Energy UK welcomes Ofgem's decision on defining a way forward for the further development of DSR principles which have been discussed extensively within workgroup meetings and we note that there remain a number of challenges in the product design and supporting processes. We provide comments on the proposed licence drafting and some observations on the DSR principles.

Licence Drafting

8I.1(d) and 8I.9(b) refer to NGG providing a report to the Authority on the outcome of the trial but no detail is provided on what this should contain. It may be helpful if Ofgem's minimum requirements were defined in more detail to ensure it has sufficient information to determine whether or not to proceed with full implementation of a DSR methodology. Ofgem should in order to be consistent with its policy¹ also endeavour to be more transparent in determining how it will assess success of the trial.

8I.4(b) this seems to pre-determine that certain DMC Supply Point Components should be excluded, such that NGG would not be able to comply with this licence condition if all DMC s were allowed to participate. We consider excluding certain DMC supply point components will need to be robust against non-discrimination criteria. We suggest this should be re-drafted to accommodate either full or limited participation by DMC Supply Point Components.

8I.10 suggests that NGG should proceed with development of UNC modifications and system changes after the trial *unless the Authority directs otherwise*. We consider this is rather open ended and recommend that either the Authority makes a positive direction to proceed with full implementation of the DSR methodology or that the Authority veto is time limited in some way. Otherwise there is a risk of NNG expenditure not being efficiently incurred if an Authority veto was to be several months after the end of the trial. We also seek clarification that Ofgem does not expect system changes and hence costs to be incurred developing such a system until after any trial.

8I Part E – Energy UK considers that this could be drafted in a manner similar to Special Condition 9A that relates to capacity release and substitution methodologies. In particular that a change to the methodology is approved automatically unless vetoed in a defined timescale, otherwise there should be a defined timescale for the Authority to consent to a revision to provide NGG and market participants with certainty over the methodology and supporting processes.

¹ <https://www.ofgem.gov.uk/ofgem-publications/86772/transparencyofofgempolicy-astatementofourpolicy.pdf>

DSR Principles

Energy UK agrees with many of the principles that Ofgem has defined for the DSR mechanism and particularly welcome the inclusion of a trial to assess the potential interest in the provision of DSR. We note that Ofgem has provided a strong steer on a number of issues.

- The use of a market platform – we support this being linked to the OCM, whilst having some reservations over development costs. It should provide transparency of the bid stack and reassurance that any bids will be accepted in price order alongside the rest of the market. We would anticipate this being reflected in the System Management Principles Statement to ensure that only economically efficient bids are accepted that either alone or in aggregate can have a beneficial effect on the prevailing supply / demand situation prior to Stage 2 of a gas deficit emergency being declared.
- Excluding option fees - Energy UK has maintained that option fees were an important feature to encourage participation but accepts the Poyry analysis that the cost of including option fees could be high.
- Excluding gas-fired generation – Energy UK maintains that gas- fired generation providing voluntary demand side response can have a key role to play in avoiding a gas deficit emergency. We agree with Ofgem that gas-fired generators can participate in the traded gas market but maintain that such plant can provide demand side response that can be monitored in real time through telemetry. Few other customers are able to provide this certainty of response. Therefore allowing gas-fired generation to participate would also provide NGG with more confidence over the response in terms of volume, timing and potentially location than it buying title gas on the OCM, which creates a price signal rather than providing a physical response.

We believe that a decision to participate should be for the customer / generator / shipper rather than being excluded from the outset. Notwithstanding that, gas-fired generation would need to consider the electricity market position and any capacity market obligations, so participation may be self limiting at times of electricity market stress.

Any 'rules' to exclude certain types of customers will need to be carefully drafted to avoid undue discrimination and particularly consider different types of gas-fired generation; CCGT, OCGT and CHP. It may also be the case that industrial CHP units are not directly connected to the NTS or DN network but part of a connected system, which could add to the complexity of any 'exclusion' 'rules'.

The development of a market orientated screen based system is supported and will provide customers with the option to place sleeper offers or to structure their offers in terms of volume and price more dynamically.

Other issues

Energy UK would also like to note that there remains significant work to fully define the DSR product and commercial arrangements, including but not limited to:

- Product design – given many months of debate we acknowledge that there is no simple answer to this and a compromise will probably be needed to address the turn down to or turn down by issue.
- Role of shipper – this will need to be clearly defined, does the shipper simply register volumes and prices submitted by customers, with all volume risk being passed back to the customer via penalties or is the shipper expected to carry some imbalance risk, in which case how should it be compensated for this.
- Transparency –the offers must be transparent to other parties to facilitate efficient market operation and trading. Accurate cashout prices, including any accepted DSR offers must be available in real-time to support risk assessment and trading decisions.

Energy UK and its members will be happy to engage with National Grid and Ofgem to further develop the DSR methodology and supporting processes.

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