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Dear Anjli,

Gas SCR - Demand Side Response

SSE welcomes the opportunity to provide feedback on the development of the Demand Side Response (DSR) methodology.

SSE welcomes the decision for a trial of the DSR tender process that seeks to maximise volume but does not distort the market through introducing excessive prices. We think some form of tender assessment that removes high price offers will be essential, this could be achieved in accordance with National Grid's (NG) Licence obligation to manage the network on an efficient and economic basis.

Before the trial commences, metrics will need to be determined so that we will know if a successful DSR process has been developed and what improvements are required before operational implementation.

Prior consultation responses appear to prefer a multi year, option fee structure for DSR tenders. The variable option fees could be funded by SO commodity charges. However, this cost will be passed through to customers and additional cost for services that are used infrequently is undesirable. Which is why Ofgem are minded not to include option fees. But without option fees, participation in DSR will be low. This further risks, low levels of competition and subsequent low volume bids setting unreflective high prices.

Ofgem intend to exclude gas fired generation from participating in the DSR market on the basis that a route to market already exists. SSE also have concerns about electricity capacity market penalties being passed through to the gas market, although to an extent this price risk will be passed through irrespective of a DSR product or not.
However, allowing gas-fired generation with real time metering to participate would provide NG with more confidence over the response in terms of volume, timing and location. Further, it could be considered unduly discriminatory to exclude gas fired generation from participating in DSR.

SSE welcomes NG's suggestion of facilitating a DSR tender by enabling Shippers to place DSR bids on the OCM. However, the following areas will require to be developed:

1. SSE are concerned that in a fast occurring emergency, DSR offers placed on the OCM which would not be accepted on the grounds of economically efficient would be taken once an emergency is declared.
2. Based on the previous consultation responses, the majority of I&C DM customers do not view DSR as high priority. SSE considers it unlikely that offers on the OCM

will be updated in real time prior to a GDW being declared. Therefore, the OCM based DSR solution may be over engineered. The system implementation costs need to be kept low so as to ensure good value for customers. The OCM system costs should be compared with the costs of running a “paper” tender process such as the Operating Margins service.

3. 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.
4. The role of shippers will need to be clearly defined, the shipper will need to register volumes and prices submitted by customers within specific timescales. We would expect all volume risk to be passed back to the customer via penalties in the event of non delivery. In the event that the shipper is expected to carry imbalance risk they will need to be compensated for this.
5. Due to the current lack of real time metering and telemetry SSE think that only a ”turn down by product” will give NG certainty of volumes and subsequent protection for Shippers from cashout risk resulting from under or over delivery from DSR.

If you would like to discuss any of the points raised please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
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