



Gas DSR Update

Meeting with Consumers

2 June 2025

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Agenda

Gas DSR recap

NGT reflections

Minimum aggregate quantity

Prices assessment

Next steps / Q&A



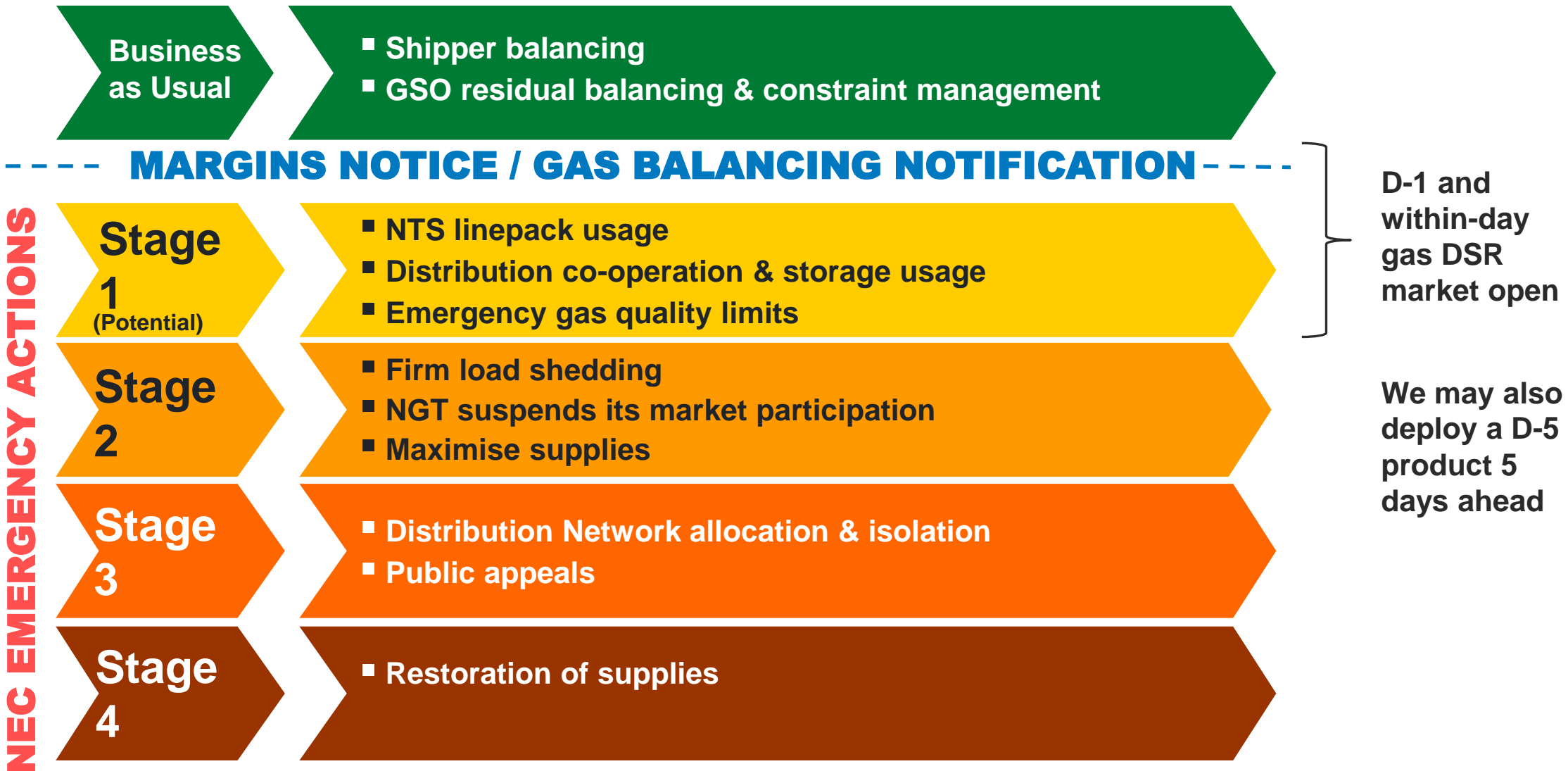
Recap: Purpose of Gas DSR

Provide opportunity for **greater financial compensation** for large industrial consumers by **voluntarily reducing demand** than **involuntarily curtailment** at times of national gas supply deficit

Reduce the likelihood, severity and duration of a gas deficit emergency

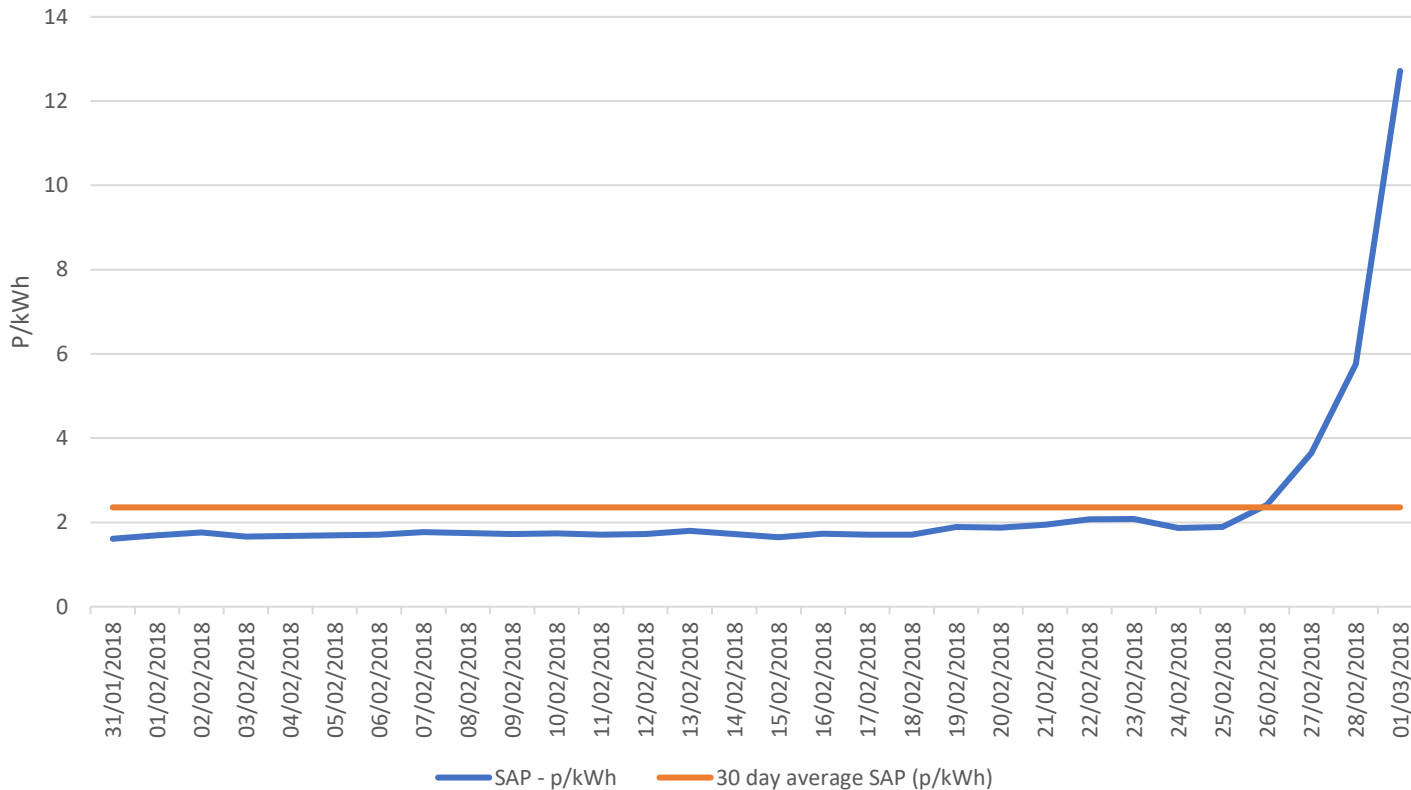
Strengthen GB energy security by giving NGT an additional tool to balance the network at times of system stress

DSR and Emergency Arrangements



Why Offer DSR? Remembering Beast from the East...

SAP vs 30 day average up to 1 March 2018



If a stage 2 emergency occurs and industrial sites are instructed to reduce gas demand, compensation is payable at 30 day SAP

Gas prices rose considerably leading up to the Beast from the East event, but the 30 day SAP price was relatively modest at 2.4 p/kWh

Accepted DSR option offers in 2024 tender
Option price (weighted average): 0.47 p/kWh/d
Lowest exercise (fixed) price: 7.5 p/kWh
Highest exercise (fixed) price: 10.7 p/kWh

Gas forward price for Q1 2026 is currently trading at ~3.3 p/kWh

Compensation payable to industrial sites if compulsory demand reduction is required this winter could be at ~3.5 p/kWh
Such sites could realise greater value by participating in voluntary DSR (option value locked in whether or not DSR is called)

Gas DSR Regime: Key Features

- NGT seeks to contract for DSR **in advance of winter** ('on the day' model is still available to shippers)
 - **'Shipper DSR'**: contractual terms are in the UNC
 - **'Consumer DSR'**: standard terms and conditions apply
- **'Option and exercise'** arrangement up to 3 years out
- **3 products**: D-5, D-1, within day
- NGT may exercise pre-contracted DSR on any day between **01 November and 30 April**
- The consumer commits to **reduce its demand** from a historical daily average to a quantity the consumer defines if called by NGT
 - **Additional 'restrictions'** e.g. consecutive number of days may be specified by the consumer
- NGT decides how much to spend in **option fees**, subject to Ofgem oversight above £36m

Reflections on the last 3 years

- A **significant amount of change** has been implemented to enhance the DM DSR regime in recent years
 - Option and exercise scheme
 - Consumer direct participation
 - UK Government derogation on fuel switching (was this useful?)
- **Market growth** has been achieved year-on-year from 3 summer tenders
 - Total volumes capable of acceptance were 0.2 mcm/d (2022), 0.73 mcm/d (2023), 1.29 mcm/d (2024)
- **Prices are high** relative to our other balancing tools

Total volume accepted for 2024/25 = **0.4 mcm** at an option cost of **£3.7m** (6 month period)

Operating Margins: Total volume accepted for 2024/25 = **89 mcm** at an option cost of **£26.8m** (12 month period)

- DSR options are ~30 times more expensive (OM= 81p/therm vs DSR £25/therm)
- **Aggregate volumes** tendered remain **below what is required** for DSR to fulfil its purpose
 - ~ 1mcmd aggregate DSR offered volumes vs national demand of likely 400+ mcmd
- In the absence of a definitive volume requirement, we have sought to **balance market stimulation** with our obligation to act **economically and efficiently** in our assessment of tender offers

2025 Tender: Minimum Aggregate Quantity

- There is **25 mcm/d** of industrial Daily Metered demand
- After 3 tenders, **only a small fraction of this has been offered as voluntary DSR**
- We consider that the 2025 tender must deliver a **material growth** in aggregate quantity offered for winter 2025/26 to warrant retaining the tender arrangements
- We have been considering what the **minimum aggregate quantity of DSR** that is capable of acceptance for winter 2025/26 should be

2025 Tender: Minimum Aggregate Quantity

- We consider that a minimum aggregate quantity of **2.3 mcmd** strikes the best balance between what is **achievable**, demonstrates continued meaningful **market growth** and what is **useful** to us
- 2.3 mcmd would represent **exponential growth** from volumes offered in 2023 and 2024 tenders*
- We propose that if an aggregate quantity that is capable of acceptance of less than **2.3 mcmd** is received:
 - NGT shall **accept no offers**
 - NGT shall take steps to **withdraw the DSR tender arrangements**
 - The **pre 2022 DSR arrangements** ‘on the day, shipper only DSR’ would be **retained** to provide industrial consumers with a potential route to market

* Aggregate volume offered in 2024 was 1.29 mcmd, in 2023 it was 0.73 mcmd

Offer Assessment: Option Price

Option Price Analysis

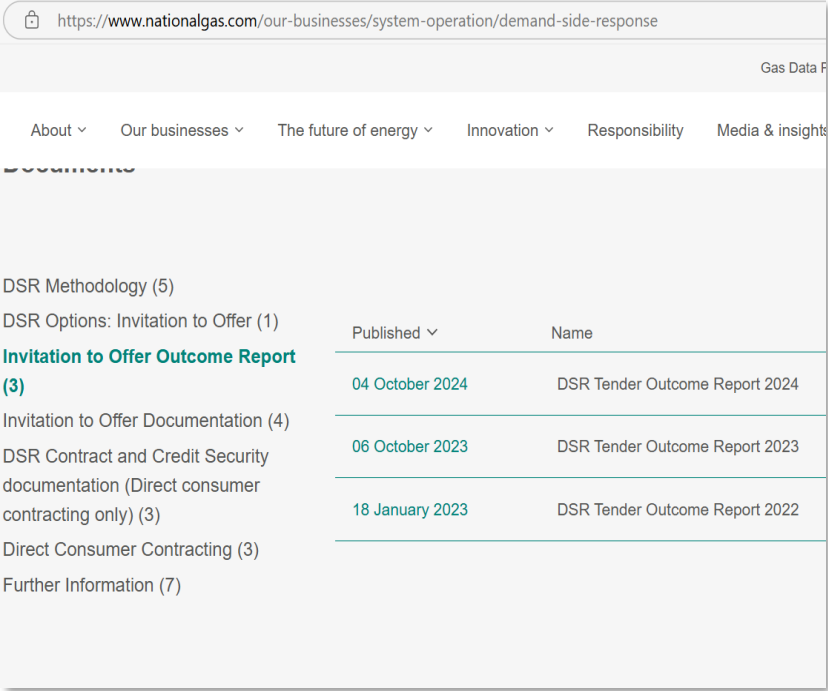
As with the 2024 tender, we propose to place greater emphasis on the option price than exercise price

- The former is a ‘sunk’ cost
- The latter is only payable if the option is exercised

We will consider 2025 tender option prices against option prices received in previous 3 tenders

- If the market grows and competition increases, we would expect to see prices fall, whilst accepting cost drivers will be different at different sites and inflation effects

We **do not propose** to compare option prices against the price of other balancing tools such as Operating Margins because the cost drivers for service providers are fundamentally different



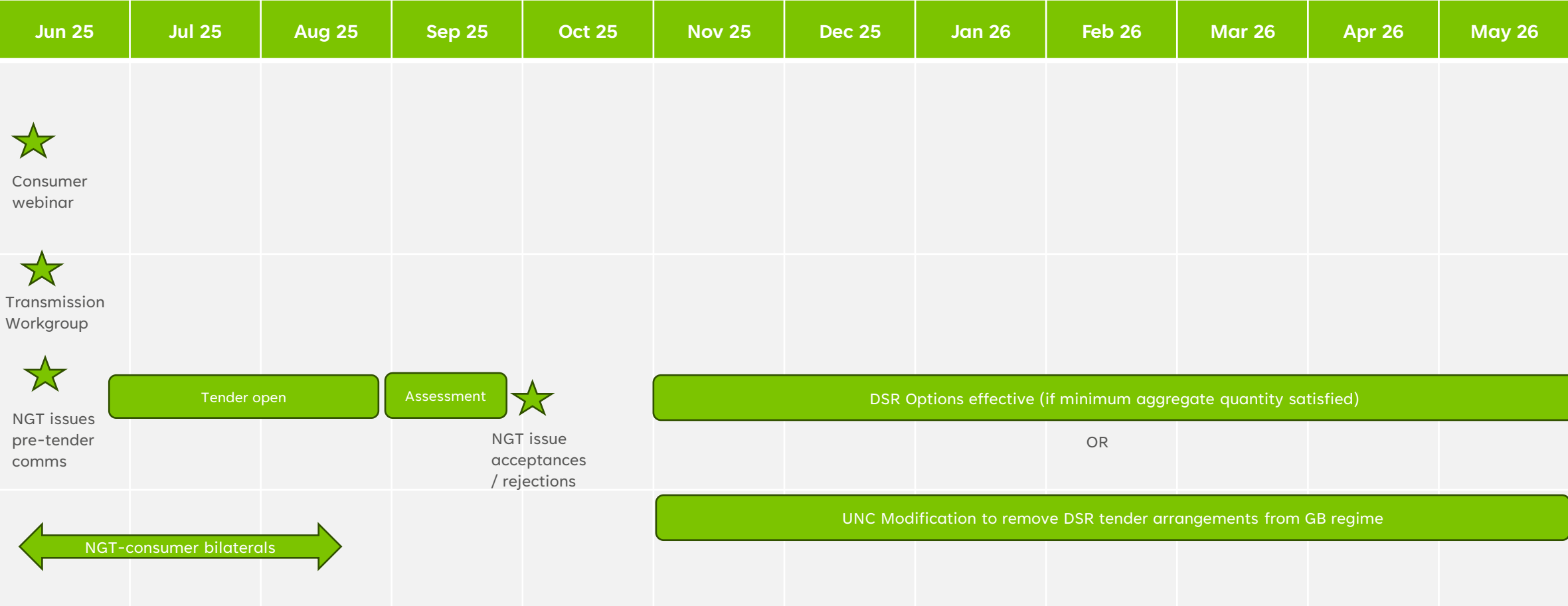
The screenshot shows a web browser window with the URL <https://www.nationalgas.com/our-businesses/system-operation/demand-side-response>. The page has a navigation bar with links: About, Our businesses, The future of energy, Innovation, Responsibility, and Media & insights. Below the navigation bar, there is a section titled 'Documents' which lists various documents. A table is displayed with two columns: 'Published' and 'Name'. The table contains three rows of data, each representing a DSR Tender Outcome Report. The first row is for the 2024 report, published on 04 October 2024. The second row is for the 2023 report, published on 06 October 2023. The third row is for the 2022 report, published on 18 January 2023.

Documents	
DSR Methodology (5)	
DSR Options: Invitation to Offer (1)	
Invitation to Offer Outcome Report (3)	Published
	Name
	04 October 2024
Invitation to Offer Documentation (4)	
DSR Contract and Credit Security documentation (Direct consumer contracting only) (3)	06 October 2023
	18 January 2023
Direct Consumer Contracting (3)	
Further Information (7)	

Offer Assessment: Exercise Price

- The exercise price tendered can either be a **fixed price**, or defined as a **multiplier of the System Average Price** on the day before exercise occurs
 - For example, if a within day option has a multiplier of 1.5 and NGT exercise on 01/01/26, the price paid will be the final SAP value for gas day 31/12/25 multiplied by 1.5
- We think it is reasonable to assume that the cost of exercising DSR would equate to the cost of buying gas off on the day of a national supply shortage
- We therefore plan to consider exercise prices in the context of historical escalations in gas market prices when significant market events have occurred

Next Steps



Further Support

- If any consumer (or its shipper) wishes to know its **Winter Average Demand (WAD)** before submitting a DSR Option Offer, please email brendan.mullan@nationalgas.com quoting site name, site address and Meter Point Reference Number
- If any consumer wishes to know its **‘annual contract limit’*** before submitting a DSR Option Offer (to indicate whether security may need to be provided if its option offer is accepted by NGT), please email brendan.mullan@nationalgas.com quoting the Company Registration number and address.
- * See clause 8 of the [NGT Consumer DSR Contract](#) for details on the credit arrangements
- Separate ‘walkthrough’ sessions dates on how to complete and submit a DSR option offer are being planned and will be advised in due course
- If any party would like a bilateral meeting, please email philip.hobbins@nationalgas.com and brendan.mullan@nationalgas.com
- Further information about Gas DSR is available on our website at [Demand Side Response | National Gas](#)

Questions



Thank you