

To all interested parties and stakeholders,

Email: Maryam.Khan@ofgem.gov.uk

Date: 1 December 2022

Decision further to National Grid Gas plc's request for Derogation from Special Condition 9.22 (Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification) of its Gas Transporter Licence

We¹ write further to National Grid Gas plc's ("NGG") application to Ofgem, dated 29 November 2022, requesting a derogation pursuant to Special Condition 9.22.12 of NGG's Gas Transporter Licence (the "Licence")² in respect of the Gas Demand Side Response ("DSR") Methodology.

This letter sets out our decision to grant the requested derogation for NGG to consult on revisions to the DSR Methodology for not less than 2 days instead of for not less than 28 days as currently required under Special Condition 9.22.5 of NGG's Licence, in accordance with Special Condition 9.22.12 of NGG's Licence. The direction, which appears annexed to this letter, will give effect to this derogation decision (subject to the conditions specified therein).

Background

Part B of Special condition 9.22 in the Licence sets out the requirements and process NGG must follow in reviewing and revising the DSR Methodology. NGG may only revise the DSR Methodology in accordance with Part B of Special Condition 9.22 unless a derogation from these requirements is applied for and granted under Special Condition 9.22.12.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² National Grid Gas plc, Gas Transporter Licence, Special Conditions:
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

NGG has identified the need to revise the DSR Methodology and has requested a derogation in respect of Special Condition 9.22.5, which requires that before revising the DSR Methodology the Licensee must consult for a period of 28 days in which interested parties can make representations to the Licensee.

UNC833

The DSR arrangements provide a mechanism for large consumers of gas to offer to reduce their demand via their User in return for a payment that they define during times of system stress. The DSR arrangements as reformed by Modification UNC822³ take the form of “option” and “exercise” stages with separate payments made for each. Users post DSR Market Offers onto the OCM at times of supply shortage.

Since Urgent Modification UNC822 was implemented and the current invitation process launched,⁴ NGG has been engaging with Users with an industrial and commercial portfolio about the likelihood of DSR options being offered and whether there are any barriers in relation to this. One barrier that has been identified is that some Users, that are considering participating, do not have access to the OCM and therefore could not post a DSR Market Offer if required.

On 12 December 2022, NGG raised an urgent Uniform Network Code⁵ (“UNC”) modification UNC833: *'Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions.'*⁶ UNC833 is a proposal to modify the UNC with the intention to include provisions within the UNC to allow Users who don't have access to the On-the-Day Commodity Market to participate in D-1 trades as specified in UNC822. UNC833 also includes changes to:

1. Allow NGG to enter into Non-Trading Systems Transactions with Users in relation to a Day on which a Margins Notice is in force, as well as a GBN.
2. Allow NGG and Users to have visibility of DSR Market Offers during a Voluntary DSR Period (which post implementation of UNC822 may be triggered either by a Margins Notice or GBN).
3. Amend the units in which DSR Option Prices are submitted from p/kWh to p/kWh/day.

³ <https://www.ofgem.gov.uk/cy/publications/unc822-reform-gas-demand-side-response-arrangements-decision>

⁴ <https://www.nationalgrid.com/gas-transmission/balancing/demand-side-response-dsr>

⁵ The Uniform Network Code sets out the transportation arrangements between licensed gas transporters and gas shippers, as required by Standard Special Condition A11 of the Gas Transporters Licence: Network Code and Uniform Network Code.

⁶ [0833 - Enabling Demand Side Response \(DSR\) Market Offers to be made by Non-Trading System Transactions | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

We have published our decision to grant urgency to UNC833 - Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions today (1 December 2022).

Derogation request

NGG has requested a derogation in accordance with Special Condition 9.22.12 of NGG's Licence from the requirement to consult for 28 days as stipulated in Special Condition 9.22.5 of NGG's Licence. NGG have requested to reduce the consultation period to one day in order to consult on changes to the DSR Methodology on the same timetable as UNC833. This shortened consultation period also aligns with the NTS DSR tender process closing on 9 December 2022.

Our Views

We have decided to grant NGG's derogation request so they may consult for a period of not less than one days, so that the review of the DSR Methodology can mirror the shortened timetable of UNC833.

We agree that it is appropriate to consider options to enhance the DSR tool on a shortened timescale so that the DSR tool is more likely to be effective if needed this winter. NGG note that the current NTS DSR tender process closes on 9 December 2022 and this modification is required urgently to enable all Users to participate in that tender. We have considered the impact and effect on consultees of a one day consultation period. We acknowledge the industry engagement that NGG has conducted to date with both UNC parties and representatives from large manufacturing industry to inform its development⁷ of UNC833. A one day consultation period is necessary to ensure implementation (if approved) can apply to the current NTS DSR tender process, closing on 9 December 2022. All possible efforts should be made to ensure that the time is used well, that stakeholders who might otherwise experience difficulty engaging in the consultation are proactively approached, and that the analysis is sufficient to properly inform a Panel vote and an Ofgem decision.

Nothing in this letter in any way fetters the discretion of the Authority in relation to our decisions as to whether to approve UNC833 and the DSR methodology when sent to the Authority for decision. UNC833 will be assessed according to the UNC Relevant Objectives once the Final Modification Report (FMR) is sent to the Authority for decision. The DSR Methodology will be assessed according to the Licence once it is sent to the Authority for decision.

⁷ [0833 - Enabling Demand Side Response \(DSR\) Market Offers to be made by Non-Trading System Transactions | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

Our decision

We have reviewed NGG's derogation request submitted to us on 29 November 2022 and, in accordance with Special Condition 9.22.12, we have decided to grant the requested derogation to NGG to consult for less than 28 days on its proposed revisions to the DSR Methodology, but no less than 1 days as specified in our direction annexed to this letter. The direction, which is issued in the Annex to this letter, will give effect to the derogation decision.

This letter constitutes notice for the purpose of section 38A of the Gas Act 1986 of the Authority's reasons for its decision to grant the derogation by direction, and a copy has been made available on our website.

Maryam Khan

Head of GSO Regulation

For and on behalf of the Gas and Electricity Markets Authority

ANNEX - Direction Notice

To: The Company Secretary, National Grid Gas plc

Derogation by Direction issued to National Grid Gas plc by the Gas and Electricity Markets Authority pursuant to paragraph 9.22.12 of Special Condition 9.22 Part D of the Gas Transporter Licence in respect of implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification.

1. This derogation by Direction is issued by the Gas and Electricity Markets Authority (the "Authority") under paragraph 9.22.12 of Special Condition 9.22 Part D of the Gas Transporter Licence in respect of the NTS (the "Licence"), granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") to National Grid Gas plc (the "Licensee").
2. Paragraph 9.22.2 of Special Condition 9.22 provides that the Licensee must have in place and maintain a Demand Side Response Methodology approved by the Authority.
3. Paragraph 9.22.5 of Special Condition 9.22 provides that the Licensee must allow a period of not less than 28 days in which interested parties can make representations to the Licensee.
4. Paragraph 9.22.12 of Special Condition 9.22 provides that the Licensee may apply to the Authority for a derogation relieving the Licensee of any of its obligations under this condition.
5. The Authority hereby directs under paragraph 9.22.5 of Special Condition 9.22 of the Licence as follows, that the Licensee must:

"allow a period of not less than one day in which interested parties can make representations to the Licensee;"
6. The considerations and reasons for the Authority's decision, in accordance with the Authority's duty under section 38A of the Act to give reasons, are set out in the Authority's decision letter to the Licensee, dated 1 December 2022.
7. The Direction shall take effect on and from 1 December 2022 and remain in effect until the conclusion of the governance process for UNC833 unless revoked earlier or varied in writing by the Authority.

8. The Authority may revoke or vary this direction upon reasonable notice in writing to the Licensee.

Dated: 1 December 2022

Signed for and on behalf of the Authority

Maryam Khan

Head of GSO Regulation

Authorised for that purpose by the Authority