

National Gas Transmission Plc and  
Interested Parties

020 7901 7000

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11 March 2024

Dear colleagues,

**Statutory consultation on proposed changes to Demand Side Response (“DSR”) licence conditions of National Gas Transmission Plc’s (“NGT”) Gas Transporter Licence.**

We<sup>1</sup> are publishing a statutory consultation which proposes to make amendments in the following areas of NGT’s Gas Transporter Licence<sup>2</sup> (hereafter “licence”):

- Special Condition 1.1 – Interpretation and definitions - Part B: Definitions.
- Special Condition 9.22 – Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification.

**Background**

Special Condition 9.22 of NGT’s Gas Transporter Licence creates an obligation for NGT to maintain a DSR Methodology for assessing and accepting DSR offers. NGT’s DSR Methodology includes DSR tools which aim to reduce the likelihood, severity and duration of a Gas Deficit Emergency (“GDE”) by encouraging large gas consumers to reduce consumption in return for compensation.<sup>3</sup>

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<sup>1</sup> References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers 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.

<sup>2</sup> National Gas Transmission Plc Gas Transporter Licence Special Conditions:  
<https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

<sup>3</sup> National Gas Transmission – DSR: <https://www.nationalgas.com/balancing/demand-side-response-dsr>

DSR tools were established in 2016 and DSR was first called on in 2018, which was the last time the National Transmission System ("NTS") faced significant system stress that could have led to a GDE. No DSR offers were received in 2018.

Reforms to DSR tools were implemented in 2022, to try to increase large consumer participation in the DSR market, to enhance security of supply in Great Britain ("GB") following the Russian invasion of Ukraine. In order to implement reforms in time for the 2022/2023 and 2023/2024 DSR options tender processes, it was agreed that licence derogations could be granted, with the intention of formalising these changes as part of a licence modification at a later date to ensure consistency between NGT's licence, the Uniform Network Code ("UNC") and the DSR Methodology.<sup>4</sup>

These licence derogations were granted in the unusual context of the energy crisis facing GB and the need for changes to DSR to enhance security of supply in GB. Ordinarily, we do not accept changes to the UNC without prior changes to the licence. We wish to clarify that this does not set a precedent for future DSR reforms to follow the same pattern.

### **Current licence conditions and proposed changes**

We previously published a four-week stakeholder consultation on 17 January 2024 to gather views from industry stakeholders on our proposed changes, for which we received one response.<sup>5</sup> The respondent was supportive of all our proposed changes. This stakeholder consultation outlined our initial proposals for changes to the licence, which are explained below.

"Special Condition 1.1 – Interpretation and definitions - Part B: Definitions" currently sets out three definitions relating to DSR. These definitions are inconsistent with recent DSR reforms, which allowed for direct contracting for DSR between NGT and gas consumers, introduced an Invitation to Offer tender process, and allowed for the participation of class 2 gas consumers as well as various other process enhancements.<sup>6</sup> We deem it appropriate to

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<sup>4</sup> Our various derogation decisions can be found here: (1) <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-ngts-dsr-methodology-and-request-derogation-special-condition-922> (2) <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-demand-side-response-methodology-national-grid-gas-plcs-ngg-gas-transporter-licence-and-decision-further-nggs-request-derogation-special-condition-9223c-its-gas-transporter-licence> (3) <https://www.ofgem.gov.uk/publications/decision-further-national-grid-gas-plcs-request-derogation-special-condition-9225-its-gas-transporter-licence> (4) <https://www.ofgem.gov.uk/publications/urgency-decision-unc833-and-dsr-derogation-decision>

<sup>5</sup> Consultation on National Gas Transmission's Demand Side Response Licence Condition: <https://www.ofgem.gov.uk/sites/default/files/2024-01/DSR%20Licence%20Modification%20Stakeholder%20Consultation.pdf>

<sup>6</sup> For direct contracting, refer to UNC844: <https://www.ofgem.gov.uk/publications/unc844-enabling-direct-contractual-arrangements-consumers-demand-side-response-decision>. For "Invitation to Offer" process, refer to UNC822: <https://www.ofgem.gov.uk/publications/unc822-reform-gas-demand-side-response-arrangements-decision>. For inclusion of class 2 consumers and DSR process enhancements, refer to UNC845: <https://www.ofgem.gov.uk/sites/default/files/2023-08/UNC845%20Decision%20Letter.pdf>

support changes aimed at clarifying the definitions related to DSR to ensure consistency between the licence, the UNC and the DSR Methodology.

“Special Condition 9.22 – Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification” sets out how NGT must operate DSR. This includes provisions on which consumers can participate, how DSR must be procured in an economic and efficient manner through open and transparent market-based arrangements, how costs associated to DSR offers are to be treated, and conditions relating to DSR Methodology changes. This section is currently inconsistent with the UNC and DSR Methodology, which now contain more detail about eligible participants, direct contracting arrangements and associated cost allocations, the three DSR products that NGT offers, and their operation. We propose to remove areas of duplication in the licence and direct readers to the UNC for detailed DSR arrangements in relevant sections of the licence. Some parts of Special Condition 9.22 are also out of date with current DSR arrangements which we also propose to remove, including references to “DSR Trials”, part of the title of Special Condition 9.22 and 9.22.3(b), 9.22.3(c) and 9.22.3(d).

Since the publication of the stakeholder consultation for this modification, we also propose including definitions in the licence for “DMA Supply Point Component” and “DSR Option Invitation”. This is to ensure appropriate clarity is given to the other definitions we propose to amend.

The intention of this licence change is also to ensure the licence conditions are adequately future-proofed so that future DSR reform can be undertaken through established UNC processes where appropriate. This is intended to avoid needing frequent licence derogations or licence modifications to implement reforms. Ofgem will approve or reject UNC modifications through the current UNC governance process, as well as approving or rejecting changes to NGT’s DSR Methodology.

### **Consultation details and timelines**

Please send any views on the issues raised in this letter and the accompanying statutory consultation notice by **11 April 2024** by email to: [energy.securityofsupply@ofgem.gov.uk](mailto:energy.securityofsupply@ofgem.gov.uk) or by post to: **Mathew Chandy, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU.**

Responses to the consultation will be published on our website unless marked as confidential. You can ask for your response to be kept confidential and we will respect this subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark your documentation to that effect and include the reasons for confidentiality.

If you have any questions regarding either this letter or the statutory consultation, please contact us using the email address provided above.

Yours sincerely,

**Helen Seaton**

**Interim Head of Energy Security of Supply and Gas Markets**

Duly authorised on behalf of the Gas and Electricity Markets Authority