

National Gas Transmission Plc
and Interested Parties

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07 May 2024

Dear colleagues,

Decision on proposed changes to Demand Side Response (“DSR”) licence conditions of National Gas Transmission Plc’s (“NGT”) Gas Transporter Licence.¹

This letter outlines our² decision to approve the changes proposed to NGT’s Gas Transporter Licence (hereafter “licence”) in the following areas:

- 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 places an obligation on NGT to maintain a DSR Methodology for assessing and accepting DSR offers. DSR aims to reduce the likelihood, severity and duration of a Gas Deficit Emergency (“GDE”) by encouraging large gas consumers to reduce consumption in return for financial compensation.³

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

¹ National Gas Transmission Plc Gas Transporter Licence: <https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

² 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.

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

Reforms to DSR tools were implemented in 2022 to try to increase large consumer participation in the DSR market and to enhance security of supply in Great Britain ("GB") following the Russian invasion of Ukraine. In order to implement these 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 UNC and the DSR Methodology.⁴

These licence derogations were granted in the unusual context of the energy crisis facing GB and the need for changes to DSR to enhance GB's security of supply. 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.

Licence condition changes and consultations

The purpose of this licence modification is to make the licence consistent with recent DSR reforms made in the UNC and the DSR Methodology, whilst also ensuring that the licence is adequately future-proofed. This ensures that the licence is up to date with current DSR developments and ensures future DSR reform can be undertaken through established UNC processes, where appropriate. This helps to avoid needing licence derogations 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.

On 17 January 2024, we published our initial stakeholder consultation which proposed to make amendments to parts of NGT's licence relating to DSR.⁵ These included:

- 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.

"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,

⁴ Our various derogation decisions relating to DSR 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>

⁵ DSR Licence Condition Modification – Stakeholder Consultation: <https://www.ofgem.gov.uk/publications/stakeholder-consultation-national-gas-transmissions-demand-side-response-licence-condition>

introduced an Invitation to Offer tender process, and allowed for the participation of Class 2 gas consumers as well as various other process enhancements.⁶ We deem it appropriate to 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” currently 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 the conditions relating to DSR Methodology changes. This section is currently inconsistent with the UNC and DSR Methodology, which now contain more details 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 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).

We received one consultation response, with the respondent supporting our initial proposed changes. Following the stakeholder consultation, on 11 March 2024, we published a statutory consultation on the proposed changes.⁷ The statutory consultation introduced our proposal to include two additional definitions in the licence for “DMA Supply Point Component” and “DSR Option Invitation”. This is to ensure appropriate clarity for the other three definitions we propose to amend.

Following the statutory consultation, we received one response. The respondent was supportive of the proposed changes and made two comments:

- 1) In the definition for “Demand Side Response”, the first reference to “Uniform Network Code” should have a capital “C” for “Code”.
- 2) If “DMA Supply Point Component” is defined, then the term “DMC Supply Point Component” should also be defined in the same manner, for consistency.

⁶ For direct contracting, refer to UNC0844: <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 UNC0845: <https://www.ofgem.gov.uk/publications/unc845-enhancements-demand-side-response-dsr-arrangements-including-d-5-product-decision>

⁷ DSR Licence Condition Modification – Statutory Consultation: <https://www.ofgem.gov.uk/publications/proposed-changes-national-gas-transmissions-gas-transporter-licence-regarding-demand-side-response>

We have taken these views into consideration and made the appropriate change to the definition of "Demand Side Response" by correcting the typographical error. This is shown in our Decision Notice, which will be published alongside this letter. The term "DMC Supply Point Component" is already defined in "Special Condition 1.1 – Interpretation and definitions - Part B: Definitions", so no change is required.

Derogations from Special Condition 9.22

On 14 October 2022, we issued NGT a derogation from Special Condition 9.22.3(c), which allowed NGT to accept DSR offers where a Gas Margins Notice is in place alongside the existing requirements to 9.22.3(c).⁸ On 4 August 2023, we issued NGT derogations from Special Conditions 9.22.3(a), 9.22.3(c) and 9.22.3(d). These derogations allowed NGT to do the following:⁹

- 9.22.3(a) – allowed NGT to consider and accept DSR Options offers from Class 1 gas consumers.
- 9.22.3(c) – allowed NGT to exercise D-5 DSR Options offers when a Gas Margins Notice or a Gas Balancing Notification is not in place.
- 9.22.3(d) – allowed NGT to change where the costs for DSR offers are to be included for imbalance cash-out calculations, following recent DSR reforms.

Both derogations took effect on their respective publication dates and remain in effect until revoked or varied in writing by the Authority. As stated in Appendix 2 of our Decision Notice, as this licence modification decision amends Special Condition 9.22(a) and removes 9.22.3(c) and 9.22.3(d), these derogations will no longer apply from the day in which these licence changes become effective.

Decision

Having carefully considered the response to the statutory consultation, we have decided to proceed with the modifications to NGT's Gas Transporter Licence. A Decision Notice detailing the changes will be published alongside this letter. The decision will take effect from 03 July 2024.

⁸ Decision on the proposed modifications to the Demand Side Response ("DSR") Methodology of National Grid Gas plc's ("NGG") Gas Transporter Licence and Decision further to NGG's request for Derogation from Special Condition 9.22.3(c) of its Gas Transporter Licence: <https://www.ofgem.gov.uk/sites/default/files/2022-10/Decision%20on%20DSR%20Methodology%20and%209223c%20derogation1665496660376.pdf>

⁹ Decision on the proposed modifications to the Demand Side Response ("DSR") Methodology of National Gas Transmission plc's ("NGT") Gas Transporter Licence and Decision further to NGT's request for Derogation from Special Conditions 9.22.3(a), 9.22.3(c) and 9.22.3(d) of its Gas Transporter Licence: <https://www.ofgem.gov.uk/sites/default/files/2023-08/DSR%20Methodology%20Changes%20And%20Licence%20Derogation%20Letter%2020231690995221519.pdf>

If you have any questions regarding our decision, please contact us using the email address provided above.

Yours sincerely,

Helen Seaton
Head of Gas Security and Flexibility

Duly authorised on behalf of the Gas and Electricity Markets Authority