

To: National Gas Transmission Plc

**Gas Act 1986
Section 23(1)(a)**

**Modification of the Special Conditions of the Gas Transporter Licence held by
National Gas Transmission Plc**

1. National Gas Transmission Plc (the "licensee") is the holder of a Gas Transporter Licence ("the Licence") granted or treated as granted under Section 7 of the Gas Act 1986 ("the Act").
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority ("the Authority")¹ gave notice on 11 March 2024 ("the Notice") that we propose to modify the Special Conditions of the Licence relating to gas Demand Side Response ("DSR").² We stated that any representations to the modification proposal must be made on or before 11 April 2024.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received one response to the Notice, which we have carefully considered. We have placed this response on our website. Our response to these comments is set out in the accompanying cover letter.
5. It is necessary to make one minor alteration to the modifications set out in the Notice. This alteration is shown in yellow highlight in Appendix 1. The reason for the alteration is to correct a minor typographical error. Our rationale for the Licence modifications and this alteration is set out in our accompanying cover letter.
6. The intention of these modifications is to ensure the Licence is consistent with recent reforms made in the Uniform Network Code ("UNC") and the licensee's DSR Methodology. This ensures that future DSR reforms can be implemented through established governance processes given in the UNC and the DSR Methodology where appropriate, helping to further enhance security of supply in Great Britain.
7. We note that NGT is currently operating under derogation for Special Condition 9.22.3(a), 9.22.3(c) and 9.22.3(d).³ As a result of this Licence modification decision, these derogations will no longer apply from the day in which these Licence changes become effective. More details can be found in Appendix 2.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² Proposed changes to National Gas Transmission's Gas Transporter Licence regarding Demand Side Response: <https://www.ofgem.gov.uk/publications/proposed-changes-national-gas-transmissions-gas-transporter-licence-regarding-demand-side-response>

³ Licence derogations relating to DSR: (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>

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority ("CMA") under section 23B of the Act, Rule 5.6 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁴ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 23(10) of the Act sets out the meaning of "relevant licence holder".

Under the powers set out in section 23(1)(a) of the Act, we hereby modify the Special Licence Conditions of the Licensee's Licence in the manner specified in Appendix 1 and in the attached document. This decision will take effect from 03 July 2024.

This document is notice of the reasons for the decision to modify the Gas Transporter Licence held by National Gas Transmission Plc as required by section 38A of the Act.

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Helen Seaton

Head of Gas Security and Flexibility

**Duly authorised on behalf of the
Gas and Electricity Markets Authority**

07 May 2024

⁴ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Appendix 1

We have included the sections of the special conditions we are amending below. Deletions are shown in ~~striketrough~~, new text is double-underlined, and changes made after the consultation are in **yellow highlight**.

Chapter 1: Interpretation and definitions

Special Condition 1.1 Interpretation and definitions

Part B: Definitions

Demand Side Response	means the provision of gas to the licensee by a contracting party in respect of a DMC Supply Point Component means the voluntary reduction of gas demand by either a party to the Uniform Network <u>code</u> Code in respect of a DMC Supply Point Component or DMA Supply Point Component, or directly by a gas consumer, as agreed with National Gas Transmission and in accordance with the Uniform Network Code.
Demand Side Response Methodology	means a methodology maintained pursuant to and in accordance with the principles set out in part A of Special Condition 9.22 (Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification).
Demand Side Response Offer	means an offer to provide Demand Side Response. <u>This can take the form of an offer via the DSR Option Invitation or an offer made on the On-The-Day Commodity Market.</u>
<u>DMA Supply Point Component</u>	<u>has the meaning given to that term in the Uniform Network Code.</u>
<u>DSR Option Invitation</u>	<u>has the meaning given to that term in the Uniform Network Code.</u>

Special Condition 9.22: Implementing and maintaining the Demand Side Response Methodology for use after a Gas Balancing Notification

Introduction

9.22.1 This condition sets out the licensee's obligations to:

- (a) have in place and maintain the Demand Side Response Methodology for assessing and accepting Demand Side Response Offers;
- (b) ~~Not used~~ where directed by the Authority, run a trial of the Demand Side Response Methodology with any revisions proposed under paragraph 9.22.6(b); and
- (c) ~~Not used~~ following such a trial, send to the Authority a report on the outcome of the trial and a version of the Demand Side Response Methodology amended to address issues identified by the licensee during the trial and, if appropriate, containing any further proposed revisions to the Demand Side Response Methodology following conclusion of the trial.

Part A: The Demand Side Response Methodology

9.22.2 The licensee must have in place and maintain a Demand Side Response Methodology approved by the Authority.

9.22.3 The licensee must ensure that the Demand Side Response Methodology:

- (a) ensures that any party making a Demand Side Response Offer is a party to the Uniform Network Code or a gas consumer that is eligible to participate, in accordance with the Uniform Network Code;
- (b) ~~Not used~~ sets out the criteria for determining that particular DMC Supply Point Components are DMC Supply Point Components in respect of which a party may not make Demand Side Response Offers;
- (c) ~~Not used~~ allows the licensee to accept Demand Side Response Offers only where a Gas Balancing Notification is in place or within stage 1 of a Gas Deficit Emergency;
- (d) ~~Not used~~ demonstrates compatibility with existing market arrangements by setting out the manner in which any Demand Side Response Offers accepted by the licensee are to be treated as Eligible Balancing Actions and included in the System Clearing Contract, System Marginal Buy Price and System Marginal Sell Price;

- (e) promotes, and further facilitates, parties making Demand Side Response Offers to the licensee through open and transparent market-based arrangements, in accordance with the Uniform Network Code;
- (f) does not unduly preclude the emergence of commercial interruption arrangements;
- (g) minimises distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market; and
- (h) ensures that Demand Side Response is procured in a manner consistent with the licensee's duties under the Act and, in particular, the licensee's obligation to operate the pipeline system to which this licence relates in an efficient, economic and co-ordinated manner.

Part B: Revising the Demand Side Response Methodology

- 9.22.4 The licensee must, at least once in every period of two Regulatory Years, review, and if appropriate revise, the Demand Side Response Methodology in consultation with interested parties.
- 9.22.5 The consultation must allow a period of not less than 28 days in which interested parties can make representations to the licensee.
- 9.22.6 During the period of 7 days beginning with the date of completion of the consultation, the licensee must send to the Authority:
- (a) a report on the outcome of the review;
 - (b) a statement of any proposed revisions to the Demand Side Response Methodology that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the Demand Side Response Methodology principles; and
 - (c) any written representations (including proposals for revising the statement that have not been accepted by the licensee) that were received from interested parties during the consultation process and have not been withdrawn.
- 9.22.7 The Authority, within 28 days of receiving a report under paragraph 9.22.6(a) and a statement under paragraph 9.22.6(b), will:
- (a) approve any proposed revisions; or
 - (b) ~~Not used~~ direct the licensee to conduct a trial of the revised Demand Side Response Methodology to assess the effectiveness of the methodology and any revisions proposed by the licensee under paragraph 9.22.6(b); or
 - (c) reject any proposed revisions.

9.22.8 In considering whether to approve the licensee's proposed revisions to the Demand Side Response Methodology, the Authority will have regard to whether they are consistent with the objectives in paragraph 9.22.3.

Part C: Not used Trial and implementation

~~9.22.9 Where the Authority directs the licensee to conduct a trial of the Demand Side Response Methodology comprising the proposed revisions as outlined in paragraph 9.22.7(b), the licensee must during the period of 28 days beginning with the last day of the trial submit to the Authority a report on the outcome of the trial, including any further proposed revisions (having regard to the outcome of the trial) to the Demand Side Response Methodology.~~

~~9.22.10 Following completion of the trial and during the period of 28 days beginning with the date of receipt of the submissions under paragraph 9.22.9, the Authority will:~~

- ~~(a) approve any proposed revisions and direct the licensee to:
 - i. develop appropriate modifications to the Uniform Network Code and other processes and systems to enable it to implement the revisions to the Demand Side Response Methodology;
 - ii. implement the revisions to the Demand Side Response Methodology as soon as is reasonably practicable and once the modifications, processes and systems under paragraph 9.22.10(a)(i) are complete; and
 - iii. publish the final revised Demand Side Response Methodology on its website and in such other manner as the Authority may direct; or~~
- ~~(b) reject any proposed revisions to the Demand Side Response Methodology.~~

~~9.22.11 Where the Authority does not provide a direction under 9.22.7 or 9.22.10, the licensee must not implement the proposed revisions.~~

Part D: Exception to compliance with condition

9.22.12 The licensee may apply to the Authority for a derogation relieving the licensee of any of its obligations under this condition.

9.22.13 The Authority may, having consulted with the licensee and interested parties, direct that the licensee must temporarily or permanently cease operation of the Demand Side Response Methodology.

Appendix 2

To: The Company Secretary, National Gas Transmission Plc

Revocation of derogations by Direction issued to National Gas Transmission by the Gas and Electricity Markets Authority of Special Condition 9.22.3 (a), 9.22.3(c) and 9.22.3(d) of the Gas Transporter Licence.

1. 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 (the "Licence") in respect of the National Transmission System, granted two derogations by Direction, in accordance with section 7 of the Gas Act 1986 (the "Act") to National Gas Transmission 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 9.22.3(a) of Special Condition 9.22 states that the Licensee must ensure that the Demand Side Response Methodology ensures that any party making a Demand Side Response Offer is a party to the Uniform Network Code.
4. Paragraph 9.22.3(c) of Special Condition 9.22 provides that the Licensee must ensure that the Demand Side Response Methodology allows the Licensee to accept Demand Side Response Offers only where a Gas Balancing Notification is in place or within Stage 1 of a Gas Deficit Emergency.
5. Paragraph 9.22.3(d) of Special Conditions 9.22 provides that the Licensee must ensure that the Demand Side Response Methodology demonstrates compatibility with existing market arrangements by setting out the manner in which any Demand Side Response Offers accepted by the Licensee are to be treated as Eligible Balancing Actions and included in the System Clearing Contract, System Marginal Buy Price and System Marginal Sell Price.
6. 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. The Licensee applied for a derogation on 29 September 2022 and applied for a second derogation on 13 July 2023.
7. On 14 October 2022, the Authority issued a derogation for Special Condition 9.22.3(c).⁵ This allowed the Licensee to also accept DSR Offers where a Gas Margins Notice is in place alongside the existing requirements in Special Condition 9.22.3(c).
8. On 04 August 2023, the Authority issued a derogation for the following Special Conditions, allowing them to do the following⁶:

⁵ 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>

⁶ 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>

- (i) **9.22.3(a)** – the Authority derogated the Licensee from the need to comply with this Special Condition in circumstances where it is making a Demand Side Response Offer to a Class 1 Daily Metered Consumer whose annual quantity is greater than 2 million therms.
- (ii) **9.22.3(c)** – the Licensee is no longer required to comply with this Special Condition.
- (iii) **9.22.3(d)** – the Licensee must ensure that:
 - The acceptance and exercise of within-day and D-1 DSR offers where the counterparty is a shipper shall be treated as Eligible Balancing Actions and shall be included within the calculation of imbalance cash-out prices;
 - The acceptance and exercise of D-5 DSR offers where the counterparty is a shipper shall be treated as a Locational Action and shall not be included as a cost or revenue in the constraint management incentive;
 - Exercise of any DSR option where the counterparty is a Consumer shall not be treated as an Eligible Balancing Action and shall not be included within the calculation of cash-out prices;
 - The volumes and costs associated with D-5 DSR trades where the counterparty is a consumer shall feed into balancing neutrality.

9. Both derogations took effect on the date they were published and remain in effect until revoked or varied in writing by the Authority.

10. As this Licence modification proposes to amend Special Condition 9.22.3(a) and remove Special Condition 9.22.3(c) and Special Condition 9.22.3(d) (as shown in Appendix 1), these Licence derogations will no longer apply from the day in which these licence changes become effective.

Dated: 07 May 2024

Signed for and on behalf of the Authority

Helen Seaton

Head of Gas Security and Flexibility

Authorised for that purpose by the Authority