

National Gas Transmission Plc
and all other interested parties
and stakeholders.

Email: energy.securityofsupply@ofgem.gov.uk

Date: 19 July 2024

**Decision on the proposed modifications to the Demand Side Response ("DSR")
Methodology of National Gas Transmission Plc's ("NGT") Gas Transporter Licence.**

This letter sets out our¹ consent for NGT to revise the Gas DSR Methodology in accordance with Special Condition 9.22.4 of NGT's Gas Transporter Licence ("the Licence").²

Background

DSR is where large gas consumers offer to voluntarily reduce their gas consumption in return for a compensation payment. Special Condition 9.22.1 of the Licence requires NGT to have in place and maintain the DSR Methodology for assessing and accepting DSR offers.³ NGT must review, and if appropriate revise, the DSR Methodology at least once in every period of two Regulatory Years in accordance with Special Condition 9.22.4 of the Licence. NGT must also allow a period of no less than 28 days to consult with interested parties in accordance with Special Condition 9.22.5 of the Licence.

Within seven days of the consultation closing, NGT must submit to the Authority a report on the outcome of the review, a statement of any proposed revisions to the DSR Methodology,

¹ 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

² 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>

³ The Gas DSR Methodology: <https://www.nationalgas.com/balancing/demand-side-response-dsr>

and any written representations that were received from interested parties pursuant to Special Condition 9.22.6 of the Licence.

Since 2022, there have been several Uniform Network Code (“UNC”) modifications to enable NGT to reform DSR. These include:

- UNC0822: Reform of Gas Demand Side Response Arrangements⁴
- UNC0833: Enabling Demand Side Response Market Offers to be made by Non-Trading System Transactions⁵
- UNC0844: Enabling Direct Contractual Arrangements with Consumers for Demand Side Response⁶
- UNC0845: Enhancements to Demand Side Response (DSR) Arrangements including a D-5 Product⁷
- UNC0866S: Amendments to Demand Side Response (DSR) Arrangements (hereafter “UNC0866S”).⁸

The approval of the above UNC modifications has resulted in significant duplication of information with what is now incorporated into the UNC and the DSR Methodology. Additionally, the implementation of UNC0866S on 10 June 2024 has introduced several changes to DSR arrangements for daily metered consumers, which are not yet reflected in the DSR Methodology.

On 21 June 2024, NGT published its proposed amendments to the DSR Methodology and its Gas DSR Methodology Consultation Report.⁹

Proposed amendments to the Gas DSR Methodology

In accordance with Special Condition 9.22.8 of the Licence, we must assess any proposed revisions to the DSR Methodology and have regard to whether they are consistent with the objectives set out in Special Condition 9.22.3 of the Licence.

NGT are proposing to amend and update the DSR Methodology to remove significant duplication of information following the implementation of the above UNC modifications.

⁴ UNC0822: <https://www.ofgem.gov.uk/decision/unc822-reform-gas-demand-side-response-arrangements-decision>

⁵ UNC0833: <https://www.ofgem.gov.uk/decision/unc833-and-dsr-methodology-decisions>

⁶ UNC0844: <https://www.ofgem.gov.uk/decision/unc844-enabling-direct-contractual-arrangements-consumers-demand-side-response-decision>

⁷ UNC0845: <https://www.ofgem.gov.uk/decision/unc845-enhancements-demand-side-response-dsr-arrangements-including-d-5-product-decision>

⁸ UNC0866S: <https://www.gasgovernance.co.uk/0866>

⁹ The Gas DSR Methodology Consultation Report and the proposed amendments can be found here: <https://www.nationalgas.com/balancing/demand-side-response-dsr>

NGT are also proposing changes to the DSR Methodology to reflect new DSR arrangements introduced by UNC0866S.

NGT proposes to remove the following from the DSR Methodology to remove duplication with the UNC:

- Parts of Section 3 – DSR Option Offers (removing parts of Section 3.1 and Section 3.3 and all of Section 3.2)
- Parts of Section 4 – The OCM DSR Locational Market (removing Sections 4.1-4.4)¹⁰
- Parts of Section 6 – Eligibility (removing Sections 6.1 and 6.3. Section 6.2 will be reworded)
- Parts of Section 7 – DSR Participants (removing Section 7.5.4)
- Section 8 – DSR Contractual Relationships
- Section 10 – Posting DSR Market Offers
- Section 11 – DSR Offer Acceptance/Exercise Arrangements
- Section 12 – Exercising the Accepted DSR Market Offers Process
- Section 13 – Treatment of Accepted DSR Market Offers when entering into a GDE¹¹ Stage 2
- Section 14 – Payment Arrangements
- Section 15 – DSR Settlement Arrangements
- Section 16 – Liability Arrangements.

As well as the removal of the duplication referred to above, NGT proposes to amend the following sections to reflect new DSR arrangements introduced by UNC0866S:

- Section 3.3.3 – to reflect changes to the duration of the DSR Options offer assessment period.
- Section 7.2.2 – to reflect the addition of Class 2 gas consumers to direct contractual arrangements with NGT for DSR.¹²

In its Gas DSR Methodology Consultation Report submitted to the Authority on 21 June 2024, NGT considered that the proposed amendments to the DSR Methodology better facilitate the DSR principle set out in Special Condition 9.22.3(g) of the Licence. Special Condition 9.22.3(g) of the Licence states that the DSR Methodology must minimise distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market. NGT states that the proposed amendments better facilitate this DSR principle by addressing duplication with the UNC and thus the risk of inconsistency between the two documents.

¹⁰ OCM is On-the-Day Commodity Market.

¹¹ GDE is Gas Deficit Emergency.

¹² A Class 2 consumer is a daily metered consumer whose annual quantity is less than 2 million therms: <https://www.xoserve.com/media/40390/class-e-learning-printable-version-v2.pdf>

Consultation responses

NGT received no responses to this DSR Methodology consultation.

Our view

We consider that the proposed changes to the DSR Methodology will better facilitate the DSR principle set out in Special Conditions 9.22.3(g) of the Licence.

We agree that removing areas of duplication with the UNC will help to minimise distortions and unintended consequences on existing market arrangements. We also agree with the proposed changes to align the DSR Methodology with the changes implemented by UNC0866S, as these changes now appropriately reflect the current DSR arrangements as stated in the UNC. These amendments ensure consistency between the documents and help to avoid confusion among DSR participants, contributing towards the economic, efficient and co-ordinated operation of the pipeline system.

Our decision and next steps

Pursuant to Special Condition 9.22.7 of the Licence, we have reviewed the proposed amendments submitted on 21 June 2024 and hereby consent to NGT making these changes to the Gas DSR Methodology.

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

Helen Seaton

Head of Gas Security & Flexibility

Signed on behalf of the Authority and authorised for that purpose