

To: National Grid Gas plc

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (the Act) as follows:

1. The Authority proposes to modify the gas transporter licence held by National Grid Gas plc (NTS) granted or treated as granted under section 7 of the Act by inserting special licence condition 8I: Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning. The full text of the proposed modification is set out in the Schedule to this Notice.
2. The reasons why the Authority proposes to make this licence modification have been published by the Authority in the following documents:
 - (a) Gas Security of Supply Significant Code Review – Demand-Side Response Tender Consultation, 23 July 2013
 - (b) Gas Security of Supply Significant Code Review - Final Policy Decision, 12 February 2014
 - (c) Gas Security of Supply Significant Code Review – Statutory Consultation, 16 July 2014
3. The effects of the proposed modification is described in the documents referred to in paragraph 2 of this Notice and, in particular, the following documents:
 - (a) Gas Security of Supply Significant Code Review - Final Policy Decision, 12 February 2014
 - (b) Gas Security of Supply Significant Code Review – Statutory Consultation, 16 July 2014
4. A copy of the proposed modification and other documents referred to in this Notice have been published and are available on the Ofgem website (www.ofgem.gov.uk).
5. Any representations with respect to the proposed licence modification must be made on or before 16 July 2014 to: Anjali Mehta, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to wholesale.markets@ofgem.gov.uk.
6. All responses will normally be published on Ofgem’s website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
7. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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EMMA KELSO
Duly authorised on behalf of the
Gas and Electricity Markets Authority

16 June 2014

Schedule

Special Condition 8I: Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning

Introduction

- 8I.1 The Licensee must:
- (a) develop a methodology (the "Demand Side Response Methodology") for assessing and accepting Demand Side Response Offers;
 - (b) submit a draft version of the Demand Side Response Methodology to the Authority for approval no later than 1st March 2015;
 - (c) where Directed by the Authority to do so, run a trial of the approved draft Demand Side Response Methodology;
 - (d) following such a trial, submit to the Authority a report on the outcome of the trial and a final version of the Demand Side Response Methodology amended to address issues identified by the Licensee during the trial; and
 - (e) where Directed by the Authority to do so, implement the Demand Side Response Methodology.

Part A: Development of a Demand Side Response Methodology

- 8I.2 The Licensee must develop the Demand Side Response Methodology in consultation with interested parties.
- 8I.3 The Licensee must use reasonable endeavours to ensure that it develops the Demand Side Response Methodology in accordance with the principles set out in paragraph 8I.4 (the "Demand Side Response Methodology Principles").
- 8I.4 The Demand Side Response Methodology Principles are that the Demand Side Methodology must:
- (a) ensure that any party making a Demand Side Response Offer is a party to the Uniform Network Code;
 - (b) set 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) allow the Licensee to accept Demand Side Response Offers only where a Gas Deficit Warning is in place or within Stage 1 of a Gas Deficit Emergency;
 - (d) demonstrate 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) promote, and further facilitate, parties making Demand Side Response Offers to the Licensee through open and transparent market-based arrangements;
 - (f) not unduly preclude the emergence of commercial interruption arrangements;

(g) minimise distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market; and

(h) ensure 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 pipe-line system to which this licence relates in an efficient, economic and co-ordinated manner.

Part B: Submission, approval and publication of the Demand Side Response Methodology

8I.5 The draft Demand Side Response Methodology submitted by the Licensee must be accompanied by any written representations (including any proposals that have not been accepted by the Licensee) that were received from interested parties during the consultation process and have not been withdrawn.

8I.6 The Authority will make its decision on whether to approve the Demand Side Response Methodology within 90 days beginning on the date on which the Licensee submits the Demand Side Response Methodology. In considering whether to approve the draft Demand Side Response Methodology, the Authority may have regard to whether it is consistent with the Demand Side Response Methodology Principles.

8I.7 Where the Authority approves the draft Demand Side Response Methodology, it may direct the Licensee to:

(a) conduct a trial of the draft Demand Side Response Methodology; and

(b) publish the draft Demand Side Response Methodology,

in accordance with Part C of this condition.

8I.8 If the Authority does not approve the draft Demand Side Response Methodology, it may Direct the Licensee to consult with interested parties and submit to the Authority for approval a revised draft Demand Side Response Methodology in accordance with any conditions and within such a timescale as may be set out in its Direction.

Part C: Trial and implementation

8I.9 Where the Authority directs the Licensee to conduct a trial pursuant to paragraph 8I.7 above, the Licensee must:

(a) conduct a trial of the draft Demand Side Response Methodology in order to assess the effectiveness of the Demand Side Response Methodology proposed by the Licensee; and

(b) within 28 days beginning on the last day of the trial, submit to the Authority a report on the outcome of the trial and any proposed changes to the draft Demand Side Response Methodology.

8I.10 Following completion of the trial and the making of submissions to the Authority pursuant to paragraph 8I.9 above, unless the Authority directs otherwise within 28 days, the Licensee must:

- (a) develop appropriate modifications to the Uniform Network Code and other processes and systems to enable it to implement the Demand Side Response Methodology;
- (b) once the modifications, processes and systems are complete, implement the Demand Side Response Methodology as soon as is reasonably practicable; and
- (c) publish the final Demand Side Response Methodology on its website and in such other manner as the Authority may direct.

Part D: Exception to compliance with condition

8I.11 The Licensee is not required to comply with this condition to such extent and subject to such conditions as the Authority may from time to time direct.

8I.12 The Authority may, following consultation with the Licensee and interested parties, direct that the Licensee must temporarily or permanently cease operation of the Demand Side Response Methodology.

Part E: Revising the Demand Side Response Methodology

8I.13 The Licensee must, if so directed by the Authority, and in any event at least once in each Formula Year, review and if appropriate revise the Demand Side Response Methodology implemented in accordance with paragraph 8I.10 in consultation with interested parties.

8I.14 The consultation must allow a period of not less than 28 days in which interested parties can make representations or objections to the Licensee.

8I.15 Within seven days after completing 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 or objections (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.

8I.16 The Licensee may revise the Demand Side Response Methodology only in accordance with any revisions set out in the statement required by paragraph 8I.15(b) and only if the Authority has not directed otherwise within 28 days of receiving the documents referred to in paragraph 8I.15 above.

Part F: Interpretation

8I.17 In this condition:

Demand Side Response means the provision of gas to the Licensee by a contracting party in respect of a specific "DMC" Supply Point Component.

Demand Side Response Offer means an offer to provide Demand Side Response.

Gas Deficit Warning, Eligible Balancing Actions, System Clearing Contract, System Marginal Buy Price, System Marginal Sell Price and "DMC" Supply Point

Component shall bear the same meanings as are given to those terms in the Uniform Network Code.