

**To: National Grid Gas plc**

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

**MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY NATIONAL GRID  
GAS**

Whereas –

1. National Grid Gas plc (the Licence Holder) 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. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (the Authority) gave notice on 16 June 2014 (the Notice) that it proposed to insert new Special Condition 8I into the Licence and by requiring any representations to the modification to be made on or before 16 July 2014.
3. In accordance with section 23(4)(b) of the Act, the Authority gave notice that it proposed to make the modification(s) to the Secretary of State on 16 June 2014 and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received 2 responses. All non-confidential responses have been placed on the Ofgem website. Our response to these comments are set out in our Gas Security of Supply Significant Code Review – Conclusions, 23 September 2014.
5. The Authority has carefully considered all responses received in relation to the proposed modification.
6. In accordance with section 38A of the Act, the reasons for making this licence modification are to implement a requirement on the Licence Holder to develop and, if approved and successfully trialled, implement a methodology to allow consumers to provide voluntary Demand-Side Response in the gas wholesale market, pursuant to the aims of the Gas Security of Supply Significant Code Review. Further details of reasons for the licence modification are stated 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
  - (d) Gas Security of Supply Significant Code Review – Conclusions, 23 September 2014
7. The effect of the modification is described 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
  - (d) Gas Security of Supply Significant Code Review – Conclusions, 23 September 2014

8. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority under section 23B of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules<sup>1</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification notice. The meaning of 'relevant licence holder' is set out in section 23(10) of the Act.

### **Now therefore**

In accordance with the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies the gas transporter licence of National Grid Gas in the manner specified in attached Schedule 1. This decision will take effect on and from 19 November 2014.

This document constitutes notice of the reasons for the decision to modify the gas transporter licence held by National Grid Gas as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority  
here affixed is authenticated by the signature of**

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**Rachel Fletcher**  
**Senior Partner, Markets**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**23 September 2014**



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<sup>1</sup> The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

## **Schedule 1 – Insertion of new special condition 8I**

The text set out below is to be inserted after existing special condition 8H of the gas transporter licence of National Grid Gas plc

### **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 1<sup>st</sup> 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.

## Schedule 2 – Relevant Licence Holders<sup>2</sup>

Name	Address
National Grid Gas plc	The Company Secretary 1-3 Strand London WC2N 5EH

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<sup>2</sup> Gas licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-gas-licensees-registered-addresses>