

To: National Grid Gas Plc

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

**Modification of the Special Condition 8I of the Gas Transporter Licence held by
National Grid Gas Plc**

1. National Grid Gas Plc 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 07 October 2019 ('the Notice') that we propose to modify by amending Special Condition 8I (Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning) of the Licence. We stated that any representations to the modification proposal must be made on or before 13 November 2019.
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 carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out at the accompanying letter.
5. We are making these licence changes to align the Licence with the Uniform Network Code (UNC) as a result of UNC modification UNC685. Special Condition 8I sets out a requirement for the Licensee to develop and implement a Demand Side Response methodology including for use after a Gas Deficit Warning. On 24 July 2019, we published our decision to approve UNC6852, proposed by National Grid Gas Plc, to amend the name of a 'Gas Deficit Warning' to a 'Gas Balancing Notification'. The meaning of the newly-named term 'Gas Balancing Notification' is identical to the current term 'Gas Deficit Warning'.

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

6. The effect of the modifications will be to ensure alignment in terminology between the Licence and the Uniform Network Code, and allow National Grid Gas Plc to accept Demand Side Response offers where a Gas Balancing Notification is in place. The effect of Special Condition 8I remains unchanged in that the licensee must still maintain and develop a gas balancing system.

7. 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 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules² 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. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

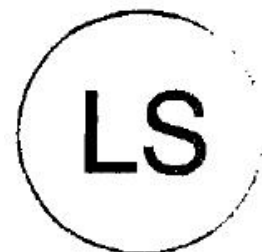
Under the powers set out in section 23(1)(a) of the Act, we hereby modify the Special Condition 8I (Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning) of the gas transporter licence of National Grid Gas Plc in the manner specified in attached Schedule 1. This decision will take effect from 01 April 2020.

This document is notice of the reasons for the decision to modify the gas transporter licence held by National Grid Gas Plc 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**

CHRIS THACKERAY

.....
Chris Thackeray
Duly authorised on behalf of the
Gas and Electricity Markets Authority



04 February 2020

² CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Schedule 1 – Licence Drafting

Legal Text changes are shown as follows:

- Text which has been deleted is struck through: ~~Example~~
- Text which has been added is bold and double underlined: **Example**

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

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~~ Gas Balancing Notification 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~~ Gas Balancing Notification, 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

National Grid Gas plc³

³ Gas licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/list-all-gas-licensees-including-suppliers>