

To: National Grid Gas Plc

Gas Act 1986 Section 23(2)

Notice of statutory consultation on a proposal to modify Special Condition 8I of the Gas Transporter licence held by National Grid Gas Plc

- 1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the special conditions of the gas transporter licence held by National Grid Gas (NGG) Plc granted or treated as granted under section 7 of the Gas Act 1986 by amending Special Condition 8I (Development and implementation of a Demand Side Response methodology for use after a Gas Deficit Warning) as set out in Annex 1 and 2 to this Notice.
- 2. We are proposing these modifications to align NGG 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 NGG, 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'.
- 3. The effect of these proposed modifications is to ensure alignment between NGG licence and the Uniform Network Code, and allow NGG 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.

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

² See Ofgem's recent decision on <u>UNC685</u>: <u>Amendment of the UNC term 'Gas Deficit Warning' to 'Gas Balancing Notification'</u>

- 4. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from foi@ofgem.gov.uk.
- Any representations with respect to the proposed licence modifications must be made on or before 13 November 2019: Abu Sayeed, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to <u>Abu.Sayeed@ofgem.gov.uk</u>.
- 6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
- 7. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Chris Thackeray

Duly authorised on behalf of the

Gas and Electricity Markets Authority

7 October 2019

Annex 1: SUMMARY TABLE OF PROPOSED LICENCE MODIFICATIONS

Special Licence	Current wording	Proposed change	Reasons for the
Condition			change
81	Special Condition 8I:	Special Condition 8I:	The proposed
	Development and	Development and	licence modification
	implementation of a	implementation of a	is to amend all
	Demand Side	Demand Side	references in the
	Response methodology	Response	licence to 'Gas
	for use after a Gas	methodology for use	Deficit Warning'
	Deficit Warning	after a Gas Deficit	(GDW) with 'Gas
		Warning <u>Gas</u>	Balancing
		Balancing Notification	Notification' (GBN),
81.4	8I.4 The Demand Side	8I.4 The Demand	to align the licence
	Response Methodology	Side Response	with the Uniform
	Principles are that the	Methodology	Network Code.
	Demand Side	Principles are that	
	Methodology must:	the Demand Side	
		Methodology must:	
	(a) ensure that any		
	party making a	(a) ensure that any	
	Demand Side	party making a	
	Response Offer is a	Demand Side	
	party to the Uniform	Response Offer is a	
	Network Code;	party to the Uniform	
		Network Code;	
	(b) set out the criteria		
	for determining that	(b) set out the	
	particular "DMC"	criteria for	
	Supply Point	determining that	
	Components are	particular "DMC"	
	"DMC" Supply Point	Supply Point	
	Components in respect	Components are	
	of which a party may	"DMC" Supply Point	
		Components in	

not make Demand respect of which a Side Response Offers; party may not make Demand Side (c) allow the Licensee Response Offers; to accept Demand Side Response Offers only (c) allow the where a Gas Deficit Licensee to accept Warning is in place or Demand Side within Stage 1 of a Gas Response Offers only Deficit Emergency; where a Gas Deficit Warning Gas (d) demonstrate Balancing Notification compatibility with is in place or within Stage 1 of a Gas existing market arrangements by Deficit Emergency; setting out the manner in which any Demand (d) demonstrate Side Response Offers compatibility with accepted by the existing market Licensee are to be arrangements by treated as Eligible setting out the Balancing Actions and manner in which any included in the System Demand Side Clearing Contract, Response Offers System Marginal Buy accepted by the Price and System Licensee are to be Marginal Sell Price; treated as Eligible **Balancing Actions** and included in the (e) promote, and further facilitate, System Clearing parties making Contract, System Demand Side Marginal Buy Price Response Offers to the and System Marginal Licensee through open Sell Price; and transparent

market-based	(e) promote, and	
arrangements;	further facilitate,	
	parties making	
(f) not unduly preclude	Demand Side	
the emergence of	Response Offers to	
commercial	the Licensee through	
interruption	open and transparent	
arrangements;	market-based	
	arrangements;	
(g) minimise		
distortions and	(f) not unduly	
unintended	preclude the	
consequences on	emergence of	
existing market	commercial	
arrangements and the	interruption	
principle of parties	arrangements;	
balancing their own		
positions in the	(g) minimise	
wholesale gas market;	distortions and	
and	unintended	
	consequences on	
(h) ensure that	existing market	
Demand Side	arrangements and	
Response is procured	the principle of	
in a manner consistent	parties balancing	
with the Licensee's	their own positions in	
duties under the Act	the wholesale gas	
and, in particular, the	market; and	
Licensee's obligation to		
operate the pipe-line	(h) ensure that	
system to which this	Demand Side	
licence relates in an	Response is procured	
efficient, economic and	in a manner	
co-ordinated 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.	
8I.17	8I.17 In this condition:	8I.17 In this	
		condition:	
	Demand Side		
	Response means the	Demand Side	
	provision of gas to the	Response means the	
	Licensee by a	provision of gas to	
	contracting party in	the Licensee by a	
	respect of a specific	contracting party in	
	"DMC" Supply Point	respect of a specific	
	Component.	"DMC" Supply Point	
		Component.	
	Demand Side		
	Response Offer means	Demand Side	
	an offer to provide	Response Offer	
	Demand Side	means an offer to	
	Response.	provide Demand Side	
		Response.	
	Gas Deficit Warning,		
	Eligible Balancing	Gas Deficit Warning	
	Actions, System	<u>Gas Balancing</u>	
	Clearing Contract,	<u>Notification</u> , Eligible	
	System Marginal Buy	Balancing Actions,	
	Price, System Marginal	System Clearing	
	Sell Price and "DMC"	Contract, System	
	Supply Point	Marginal Buy Price,	
	Component shall bear	System Marginal Sell	
	the same meanings as	Price and "DMC"	
	are given to those	Supply Point	

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

Annex 2: CHANGE MARKED LICENCE DRAFTING

Proposed Legal Text:

- 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;
 - 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.