












UNC Modification	At what stage is this document in the process?
<div>UNC 0866S:</div> <div>Amendments to Demand Side Response (DSR) Arrangements</div>	<div>01Modification</div> <div>02Workgroup Report</div> <div>03Draft Modification Report</div> <div>04Final Modification Report</div>
<div>Purpose of Modification:</div> <div>To introduce further enhancements to Gas DSR arrangements for daily metered consumers following experience of recent reforms and based on consumer feedback.</div>	
<div>Next Steps:</div> <div>The Proposer recommends that this Modification should be:</div> <div><ul style="list-style-type: none"><li>considered a non-material change and subject to Self-Governance</li><li>assessed by a Workgroup</li></ul></div> <div>This Modification will be presented by the Proposer to the Panel on 18 January 2024. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</div>	
<div>Impacted Parties:</div> <div>High: National Gas Transmission, large industrial consumers</div> <div>Low: Shippers, GDNs, iGTs</div>	
<div>Impacted Codes: IGT UNC</div>	

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Timetable		 0121 288 2107
<b>Modification timetable:</b>		Contact: <b>Joint Office of Gas Transporters</b>
Pre-Modification Discussed	04 January 2024	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
Date Modification Raised	08 January 2024	 0121 288 2107
New Modification to be considered by Panel	18 January 2024	Proposer: <b>Phil Hobbins, NGT</b>
First Workgroup Meeting	01 February 2024	 <a href="mailto:Philip.hobbins@nationalgas.com">Philip.hobbins@nationalgas.com</a>
Workgroup Report to be presented to Panel	18 April 2024	 07966 865623
Draft Modification Report issued for consultation	19 April 2024	Transporter: <b>National Gas Transmission</b>
Consultation Close-out for representations	13 May 2024	 <a href="mailto:Philip.hobbins@nationalgas.com">Philip.hobbins@nationalgas.com</a>
Final Modification Report available for Panel	20 May 2024	 07966 865623
Modification Panel decision	20 June 2024	Systems Provider: <b>Xoserve</b>
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## 1 Summary

### What

Over the past 18 months, National Gas Transmission (NGT) has worked intensively with the industry, particularly large industrial consumers and their associations, to deliver reforms to the gas DSR arrangements with the aim of improving NGT's access to voluntary demand side response from daily metered Consumers as a pre-emergency tool that could mitigate the risk of a network gas supply emergency (NGSE) arising, and to limit its duration and severity if one *did* arise. Feedback from these discussions has resulted in different, potentially better ways of doing things being identified.

### Why

Request Group 0835R<sup>1</sup> has identified a number of areas in the DSR regime that, if reformed, could result in more participation from consumers in DSR arrangements and the deployment of DSR at times of national gas supply shortage being more effective. This Modification is being raised as a 'successor' Modification to that Request Group's considerations.

### How

The DSR arrangements for daily metered Consumers will be reformed in the following areas:

- The timings and content of the DSR Options procurement tender process;
- How the process of exercise of a DSR Option works, including how the 'starting point' for demand reduction is determined;
- Enable Class 2 Consumers to contract directly with NGT for DSR Options; and
- Amend the credit rules for Consumer DSR.

A separate Modification is being raised in parallel which will seek to deliver the concept of aggregation into Gas DSR arrangements for daily metered consumers.

## 2 Governance

### Justification for Self-Governance

Self-governance procedures are proposed because this Modification seeks to deliver incremental amendments / enhancements to existing arrangements. Therefore, while this Modification is expected to be beneficial in terms of system safety and security of supply, the Proposer does not believe that such impacts will be sufficiently material to warrant Authority Direction.

### Requested Next Steps

This Modification should:

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<sup>1</sup> [0835R - Review of Gas Demand Side Response Arrangements | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/0835R-Review-of-Gas-Demand-Side-Response-Arrangements)

- be considered a non-material change and subject to Self-Governance.
- be assessed by a Workgroup.

### 3 Why Change?

NGT has been working intensively with industry and consumers in recent times to deliver gas DSR reforms which have sought to improve the effectiveness of DSR as a pre-emergency tool. Key changes have included:

- Introduction of an 'option and exercise' procurement tender and contractual structure;
- Enabling consumers to directly contract with NGT for DSR; and
- Expanding the ability for participation in DSR to all daily metered consumers.

Whilst market growth has been achieved, the 0.6 mcmd of DSR pre-contracted for this winter is still a relatively low volume. During NGT's engagement with Consumers and their associations in 2023, a number of enhancements to existing arrangements were suggested, which, in addition to the Proposer's own ideas, could help to increase the volumes of DSR offered that NGT now wishes to progress via this Modification.

If these changes are not made, total DSR offered volumes might remain relatively low and the potential for voluntary industrial and commercial demand reduction at times of system stress as a means of mitigating the risks associated with a NGSE will not be maximised.

NGT is seeking to implement the reforms proposed by this Modification into the 2024 DSR Options tender. After that tender, NGT proposes to take stock to assess whether any further DSR reform would be warranted, or if there are other gas security topics that its time, and industry's time, would be better spent working on. For example, we note that the Government intends to issue a 'Call for Evidence' on the future role of storage and other forms of gas system flexibility in Q1 2024<sup>2</sup>.

### 4 Code Specific Matters

#### Reference Documents

The UNC Modifications that have delivered recent DSR reforms are as follows:

[Final Modification Report 0822](#)

[Final Modification Report 0833](#)

[Final Modification Report 0844](#)

[Final Modification Report 0845](#)

The most recent DSR Options Tender Report which includes price and volume data can be found on the NGT website [here](#)

Further information on gas DSR can also be found on the NGT website [here](#)

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<sup>2</sup> [Role of gas storage and other forms of flexibility in security of supply](#)

## Knowledge/Skills

An appreciation of existing DSR arrangements and how it operates as a pre-emergency tool would be helpful. A link to an NGT webinar from 2023 is provided [here](#)

## 5 Solution

In these business rules, 'Shipper DSR' refers to DSR Options contracted between NGT and a Shipper User and 'Consumer DSR' refers to DSR Options contracted between NGT and a Consumer.

1. NGT's obligation to launch the annual DSR Options Invitation tender shall be brought forward from 31 August to 31 July in order to mitigate risks associated with sites changing shipper from 1 October and, for Consumer DSR, to allow Consumers sufficient time to sign the [contract](#) and put security in place if required.
2. The period within which NGT must assess DSR Option Offers and notify acceptance / rejection shall be amended from 10 business days as follows:

	Less than 15 DSR Option Offers received	More than 15, less than 20 DSR Option Offers received	More than 20 bids DSR Option Offers received
Assessment Period	Not more than 10 business days	Not more than 15 business days	Not more than 20 business days

3. Within 2 Business Days from the date on which a DSR Options Invitation closes, NGT shall notify all parties that have submitted a DSR Option Offer of the assessment period that is applicable.
4. When assessing DSR Option Offers, NGT is currently obliged to rank all offers in order of Combined Price (option plus exercise). NGT shall be permitted to give priority to Within-Day and D-1 DSR Option Offers over D-5 offers and consider the relative value of offers based on quantity offered (larger quantity has more value to NGT) the option price (which will definitely be paid if the offer is accepted) and the exercise price (which has a low likelihood of being paid), as well as any restrictions specified by the tenderer (e.g. BRs 7 and 8).
5. The information that NGT is obliged to publish post tender pursuant to UNC TPD 7.6.6 shall be expanded to include:
  - a. the number of Consumers that submitted DSR Option Offers;
  - b. The number of Consumers that have had DSR Option Offers accepted;
  - c. the number of Users that submitted DSR Option Offers;
  - d. the number of Users that have had DSR Option Offers accepted;
  - e. the weighted average option and exercise prices accepted per DSR product (within-day, D-1, D-5); and
  - f. The sectors (being chemicals, food and drink, steel and glass (heavy industry), other manufacturing, public services, other) from which DSR Option Offers have been accepted.
6. Provision of information in BRs 5(e) and 5(f) shall be conditional on the number of DSR Option Offers within each category being greater than or equal to 3 (to ensure that the commercial confidentiality of DSR Options Offers is respected).
7. The ability for tenderers to specify a maximum number of days in a Winter Period that a DSR Option may be exercised shall be replaced with a maximum number of **consecutive** days (or part thereof in relation to a Within-Day DSR Option) of exercise.

8. For a within-day DSR Option, enable tenderers to specify a minimum number of hours that the exercise of that option may apply to. (For example, under current rules, a within-day option with a 3 hour lead-time could in theory be exercised by NGT at 0100 requiring a demand reduction for just one hour between 0400 and 0500 which might be difficult for the Consumer to enact due to the unsocial hour and would not deliver a meaningful reduction quantity for NGT).
9. The minimum Option Quantity for a within-day DSR Option shall be amended as follows to reflect the fact that the Option Quantity will never equal the exercised quantity due to the application of the lead-time and some of the gas day already having passed:  
  
If  $\text{Option Quantity} - (\text{Option Quantity} / 24 * \text{lead-time (hours)}) < 100,000 \text{ kWh}$ , then NGT shall exclude that offer from its assessment process in accordance with the provisions of TPD D7.6.1(b).
10. NGT shall, not less than 10 Business Days prior to the publication of a DSR Option Invitation, publish a pre-tender communication that sets out the timetable for the forthcoming DSR Option Invitation and other such matters as NGT considers to be appropriate.
11. A prospective DSR Participant may, at any time between the date of publication of NGT's pre-tender communication and 5 Business Days before the DSR Option Invitation close date, request the Winter Average Demand in respect of a Supply Meter Point for which it is either the Consumer or the Registered User and NGT shall use its reasonable endeavours to provide it within 5 Business Days.
12. Subject to BR13, the Winter Average Demand that is applicable in respect of a DSR Option Offer shall be equal to the mean daily demand of the relevant Supply Meter Point over the Winter Periods of the past 3 years (instead of the mean of the most recent Winter Period) If 3 years' worth of historical demand data is not available, the Winter Average Demand will be determined based on the available history.
13. If a prospective DSR Participant considers that the Winter Average Demand in respect of a Supply Meter Point will not be reflective of its daily demand for the future Winter Period(s) in respect of which it is considering submitting a DSR Option Offer, that party may, as part of its DSR Option Offer, submit a forecast of daily demand for the relevant Winter Period(s) with accompanying rationale which NGT shall substitute for the historical Winter Average Demand that would otherwise have applied in its assessment process.
14. Where BR13 applies and the actual mean average daily demand in respect of the Winter Period(s) for which the DSR Option applies is materially lower than the forecast daily demand, that DSR Participant would receive a higher option fee than would be justified. Therefore, where BR13 applies in respect of DSR Option Offer, NGT shall:
  - a. Make payment of the Option Fee Instalments in respect of the months of November, December and January and withhold Option Fee Instalments in respect of the months of February, March and April pending the outcome of its assessment in BR14(b);
  - b. Not later than two months after the end of the Winter Period to which the DSR Option applies, compare actual mean average daily demand over that Winter Period against the forecast Winter Average Demand that was submitted by the DSR Participant;
  - c. Where actual mean daily demand in the relevant Winter Period is greater than or equal to 90% of the forecast, make payment of the Option Fee Instalments in respect of the months of February, March and April as soon as reasonably practicable as a single transaction to the DSR Participant; and
  - d. Where BR14(c) is not satisfied, make no further option fee payments to the DSR Participant in respect of that Winter Period.

15. Amend the termination rules for Shipper DSR in TPD D7.11.2 where a site has changed shipper to permit a 10 Business Day 'grace' period for a new shipper to confirm it wishes to take on the DSR Option from the outgoing shipper. (The current rules could be a problem for example if a DSR Option Offer is accepted, say, on 29 September and then the Consumer changes its Registered User on 1<sup>st</sup> October).
16. The quantity that NGT may exercise for D-5 Shipper DSR is at present "not less than the Option Quantity" (UNC TPD D7.8.5 and D7.8.6). This is based on the rationale that if a Shipper wanted to offer a higher quantity then it could, however in practice, NGT will only have the Option Quantity to call on at D-5, therefore this shall be amended to specify Option Quantity only.
17. Class 2 Consumers shall be eligible to submit DSR Option Offers to NGT and to contract directly with NGT should NGT accept such Option Offers.
18. Where a Consumer submits a DSR Option Offer and does not satisfy the credit conditions referenced in TPD D7.4.3(c), the DSR Contract shall provide that that Consumer may elect to receive its option fee after the Winter Period to which its offer applies instead of providing credit support.
19. Where a Consumer so elects pursuant to BR18, not later than 2 months after the end of the relevant Winter Period, NGT shall:
  - a. Determine whether the Consumer has failed to comply with its obligations to respond to an exercise instruction given by NGT in respect of the DSR Option in accordance with TPD D7.7.4(b);
  - b. Where the Consumer has failed to comply on each occasion when NGT exercised the DSR Option, not make payment of the option fee to the Consumer;
  - c. Where the Consumer has complied with its obligations upon NGT exercise of the DSR Option on a day(s) but not on another day(s), make payment of an option fee as soon as reasonably practicable for a sum equal to what the Consumer would otherwise be entitled to receive pursuant to the provisions of TPD D7.7.5; and
  - d. Where either NGT has not exercised the DSR Option or the Consumer has complied with each exercise instruction given by NGT during the Winter Period, make payment of the option fee as soon as reasonably practicable to the Consumer for a sum equal to the aggregate of the Option Fee Instalments in respect of each month of the Winter Period.
20. Where BRs 14(c), 19(c) or 19(d) apply, each relevant User's share of such sum shall be processed on its Energy Balancing Invoice in respect of the month within which National Gas Transmission made its determination in respect of those business rules.

## 6 Impacts & Other Considerations

### Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

### Consumer Impacts

This Modification is designed to increase the attractiveness of voluntary DSR for industrial and commercial consumers.

## What is the current consumer experience and what would the new consumer experience be?

Modifications 0844 and 0845 enabled more consumers to access the gas DSR market and NGT wishes to grow this market further by introducing further reforms via this Modification in response to consumer feedback. If this Modification is not implemented, some consumers that may wish to participate may be unable or unwilling to do so.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p><b>Improved safety and reliability</b></p> <p>Existing DSR arrangements have secured a relatively low volume of demand which NGT can call upon in the event of a forecast supply shortfall.</p> <p>This low volume of demand that can be reduced voluntarily could mean that the situation escalates towards a gas deficit emergency (GDE), and the associated increased risks to network safety and reliability which result from falling pressures.</p> <p>This Modification is designed to further encourage voluntary DSR take-up such that this pre-emergency tool would be available to NGT in preventing such an escalation and mitigate such risks materialising, which could potentially impact all consumer groups.</p>	Positive
<p><b>Lower bills than would otherwise be the case</b></p> <p>The impacts on consumer bills from a GDE are unquantifiable in advance but likely to be significant as wholesale gas prices rise in response to the insufficient supply situation that would trigger such an event. The insurance premium to enable voluntary DSR that this Modification would further encourage would provide a mitigation against such an impact.</p>	Positive
<p><b>Reduced environmental damage</b></p> <p>We do not envisage any quantifiable impact on the environment as a result of this Modification. There is potential for additional consumers to offer DSR that may deliver it via fuel-switching to a more polluting source than natural gas but this is unknown at this stage.</p>	Unknown / negligible
<p><b>Improved quality of service</b></p> <p>Declaration of a GDE resulting in compulsory firm load shedding would result in a significant impact on quality of service that for those parties that may be unable to continue their gas offtake. This Modification helps to mitigate such a scenario arising.</p>	Positive



<p><b>Benefits for society as a whole</b></p> <p>The potential impact on heating capability, gas fired electricity generation, interruption to industrial production and knock-on impacts into wider supply chains that a GDE is capable of causing could result in a major economic and societal impact for the country. Putting in place additional measures via this Modification to encourage greater voluntary DSR volumes provides additional mitigation against such risks arising.</p>	<p>Positive</p>
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## Cross-Code Impacts

IGT UNC may need a consequential change for consistency as has been the case for other recent DSR related Modifications.

## EU Code Impacts

None identified. Potential impacts in relation to the EU Balancing Code were considered during the development of Modification 0844, which were included in the [Final Modification Report](#).

## Central Systems Impacts

No changes to central systems are expected, however some of the processes that the CDSP performs in relation to the voluntary DSR arrangements could (or in some cases, would) be impacted.

- The CDSP carries out invoicing processes for NGT in respect of Consumer DSR. Expanding eligibility for Consumer DSR to Class 2 Consumers could result in an increased number of counterparties to whom DSR option and exercise payments would need to be made. The CDSP considers that it is currently able to fulfil this function with up to approximately 30 counterparties but should this number materially grow then additional resource and/or an alternative invoicing process would be required.
- Ahead of each DSR Option Invitation tender, the CDSP currently provides NGT with a list of all Class 1 and Class 2 Consumers and their Winter Average Demand, determined by reference to the previous Winter Period only. NGT requires this activity to continue to enable it to discharge BR11, however, if this Modification is implemented, NGT would require the CDSP to provide this report based on a 3 year Winter Period demand history.
- Where an option payment(s) or part thereof is held back pursuant to BRs 14 and 19, NGT would give this instruction in respect of the relevant Consumer(s) to the CDSP as part of its monthly payment schedule. (Provision of such a schedule to the CDSP is now a BAU process for NGT post allocation of DSR Options). Following NGT's validations post winter pursuant to these BRs, NGT would need to instruct the CDSP to either make payment of the outstanding balance of the option fee that is due (or not due as the case may be) which the CDSP would then discharge in accordance with BR20.
- Where BR14(b) applies, NGT would request the CDSP to provide the mean average daily demand in respect of the relevant Consumer.
- NGT would perform the determinations required under BR19 and inform the CDSP in accordance with current arrangements so no CDSP process change would be required for this business rule.

## 7 Relevant Objectives

### Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	Positive
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

**Relevant Objective (a) “efficient and economic operation of the pipe-line system”** is furthered by this Modification, which is designed to encourage voluntary DSR and thus mitigate the risk of a supply shortage escalating to declaration of a GDE. Should a GDE be declared then compulsory firm load shedding would result in disruption and inefficiency in the operation and use of the network as some parties that would wish to be taking gas would be prevented from doing so.

**Relevant Objective (b) “co-ordinated, efficient and economic operation of (i) the combined pipeline system and/or (ii) the pipeline system of one more other relevant gas transporters”** is also furthered by this Modification, also due to its mitigation of a GDE being declared. If such an event occurred, in addition to firm load shedding on the NTS, Gas Distribution Networks may be given instructions to implement the shedding of firm loads within their networks resulting in disruption and inefficiency at LDZ level too.

## 8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

**9 Legal Text**

**Text Commentary**

To be provided at the appropriate time.

**Text**

To be provided at the appropriate time.

**10 Recommendations**

**Proposer’s Recommendation to Panel**

Panel is asked to:

- Refer this Modification to a Workgroup for assessment for a period of 3 months, reporting back to the April 2024 Panel. This timetable is sought to enable a decision in sufficient time to include the proposed reforms in the Summer 2024 DSR Option tender.