

Modification proposal:	<b>Uniform Network Code (“UNC”) 0856 (hereafter “UN0C856”) : Introduction of Trials for Non-Daily Metered (“NDM”) Demand Side Response (“DSR”)</b>		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	19 March 2024	Implementation date:	To be confirmed by the code administrator

## Background

Gas Demand Side Response (“DSR”) is where consumers offer to voluntarily reduce their gas demand in return for compensation, and is intended to reduce the likelihood, severity, and duration of any National Gas Supply Emergency (“NGSE”). National Gas Transmission (“NGT”, “the Proposer”) have a licence obligation to maintain a DSR methodology for assessing and accepting DSR offers.<sup>3</sup>

Gas DSR arrangements were introduced into the UNC in 2016, with the framework for a Daily Metered (“DM”) DSR tool for DM consumers.<sup>4</sup> Further DSR reforms and modifications have been targeted at increasing participation from DM consumers.<sup>5</sup> However, despite these reforms, DM DSR is still yielding relatively low volumes.<sup>6</sup> Currently, the UNC does not have

<sup>1</sup> References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> Special Condition 9.22 of NGT’s Gas Transporter Licence: <https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

<sup>4</sup> UNC0504 <https://www.gasgovernance.co.uk/0504>.

<sup>5</sup> Reforms to DSR were made by UNC0822: <https://www.ofgem.gov.uk/publications/unc822-reform-gas-demand-side-response-arrangements-decision>, UNC0833: <https://www.ofgem.gov.uk/publications/urgency-decision-unc833-and-dsr-derogation-decision>, UNC0844: <https://www.ofgem.gov.uk/publications/unc844-enabling-direct-contractual-arrangements-consumers-demand-side-response-decision>, UNC0845: <https://www.ofgem.gov.uk/publications/unc845-enhancements-demand-side-response-dsr-arrangements-including-d-5-product-decision>

<sup>6</sup> Gas Demand Side Response (DSR) Tender 2023 Outcome Report <https://www.nationalgas.com/document/144551/download>

any provisions to allow for Non-Daily Metered (NDM) DSR tools. NDM consumers make up a large proportion of total demand of the gas network, so an NDM DSR tool has the potential to play a key role in delivering gas demand reduction in the event of system stress and thus enhance DSR as a pre-emergency tool.

In March 2023, the Department for Energy Security and Net Zero published the Government's 'Powering Up Britain – Energy Security Plan' which stated the intention to work with NGT to investigate options for domestic and smaller business gas consumers to participate in DSR, in an effort to develop the DSR market.<sup>7</sup> Following this, NGT explored with industry the development of an NDM DSR pre-emergency tool. NGT has submitted this modification to establish the necessary framework to help deliver this Government ambition.

### **The modification proposal**

On 8 September 2023, NGT raised UNC modification UNC0856: 'Introduction of Trials for Non-Daily Metered (NDM) Demand Side Response (DSR)'.<sup>8</sup> UNC0856 proposes to introduce a new term into UNC Transportation Principal Document ("TPD") Section D and utilise existing provisions within the System Management Principles Statement to introduce time limited NDM DSR Trials. However, any trial would be subject to NGT producing a specification document, and Ofgem approving this specification document.<sup>9</sup> NGT considers the use of trial(s) to explore potential sources of NDM demand reduction to be an appropriate route before developing any enduring solution. Any NDM DSR Trials in the future would be for the purpose of gathering data, further understanding risks, mitigating risks, and contributing towards longer term thinking on the effectiveness of any enduring NDM DSR tool.

A specification document will be required to detail the aims, objectives and success criteria of any NDM DSR Trial. It will also have to specify the eligibility requirements for participation, estimated cost of a trial, expected duration, payment terms between NGT and service providers, and the contractual arrangements for the service provider with the roles, responsibilities and any liabilities which arise as a result of participating. NGT will be required

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<sup>7</sup> Powering Up Britain: Energy Security Plan <https://www.gov.uk/government/publications/powering-up-britain/powering-up-britain-energy-security-plan>.

<sup>8</sup> UNC0856: <https://www.gasgovernance.co.uk/0856>

<sup>9</sup> Proposed legal text [https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/UNC0856%20Draft%20Legal%20Text%20to%20the%20JO%2025.10.23\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/UNC0856%20Draft%20Legal%20Text%20to%20the%20JO%2025.10.23_0.pdf)

to formerly consult on a specification document, and then to submit the specification document to the Authority. The Authority will be required to either approve or reject the specification document. An NDM DSR Trial will not be able to proceed without Ofgem approval of a specification document.

In any NDM DSR Trial, participants would be financially incentivised to voluntarily reduce their consumption for a limited period of time. NGT proposes that any NDM DSR Trial would be funded via the Energy Balancing Neutrality mechanism, where the costs associated with balancing the network are socialised across Shippers.<sup>10</sup> In any NDM DSR Trial, payments would be made from NGT to Shippers/Suppliers rather than to end consumers. Shippers/Suppliers would be responsible for making payments to trial participants.

Two months after any NDM DSR Trial, NGT would be required to publish a report that details trial results, costs and an assessment against the success criteria as set out in the specification document. NGT would also be required to confirm whether they intend to raise a further UNC modification to implement any enduring NDM DSR product.<sup>11</sup>

### **UNC Panel<sup>12</sup> recommendation**

At the UNC Panel meeting on 14 December 2023, the majority of the UNC Panel voted not to recommend implementation of UNC0856. Panel Members voted with 6 votes in favour (out of a possible 13) and therefore did not agree by majority to recommend implementation. Of the members representing consumers, the Consumer Voting Member voted to recommend implementation.<sup>13</sup>

Some Panel members expressed concerns with asking vulnerable consumers to reduce their heating levels and held the view any specification document would have to identify ways to mitigate all risks associated with consumers.

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<sup>10</sup> UNC0856 Final Modification Report <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-12/Final%20Modification%20Report%200856%20v2.0%20with%20reps%20appended.pdf>

<sup>11</sup> UNC0856 Final Modification Report

<sup>12</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>13</sup> Panel record of determination [https://www.gasgovernance.co.uk/sites/default/files/ggf/2023-12/Determinations%20Record%2014%20December%202023\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/2023-12/Determinations%20Record%2014%20December%202023_0.pdf)

## Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (“FMR”) dated 14 December 2023. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>14</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Relevant Objectives of the UNC;<sup>15</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>16</sup>

## Reasons for our decision

We consider this modification proposal will better facilitate UNC Relevant Code Objectives (a), (b) and (f) and will have a neutral impact on the other Relevant Objectives.

### **(a) the efficient and economic operation of the pipe-line system to which this licence relates**

The Proposer considers that this modification would have a positive impact on Relevant Objective (a) as it would create a framework to test key principles of an NDM DSR product via the use of trials. They state that testing DSR tools would be a necessary step to furthering understanding on the role of NDM DSR as a pre-emergency tool. Both the Panel and consultation respondents shared the view that the modification would have a positive impact on Relevant Objective (a), whilst noting that a specification document would need to provide suitable protections to consumers, particularly vulnerable consumers.

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<sup>14</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>15</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>16</sup> The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

We agree that this modification has a positive impact on Relevant Objective (a) because introducing a framework into the UNC for NDM DSR Trials could allow for the development of the DSR market. NDM consumers constitute the majority of gas consumption, and as such hold the greatest potential for high volumes of DSR. An appropriately designed NDM DSR tool could have the potential to reduce the likelihood, severity, and duration of any NGSE. We agree that NDM DSR Trials would be a necessary first step to gathering data and furthering understanding of risks of any NDM DSR product. We are also of the view that any future NDM DSR Trial should not proceed without NGT first developing a specification document to ensure the trial would protect consumers. We consider that further mitigations to protect consumers will be consulted on ahead of a specification document coming to Ofgem for approval. We welcome further engagement across all relevant parties to continue developing this area.

***(b) so far as is consistent with sub-paragraph (a), the 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***

The Proposer considers that this modification would have a positive impact on Relevant Objective (b) as it would create a framework to test key principles of an NDM DSR tool. They believe a trial could provide learnings that allow an enduring solution, and that an enduring solution could benefit Great Britain's ("GB") security of supply, reducing the likelihood of a NGSE from being declared. The Panel shared this view, noting that NDM DSR Trials would assist in the creation of sustainable longer-term tools that could improve the coordination of the NTS and Distribution Networks ("DN") and maintain the economic and efficient operation of the pipe-line system if managing future supply emergencies. All consultation respondents also agreed that the modification will have a positive impact on Relevant Objective (b). The Panel members and some consultation respondents reiterated what was said in relation to Relevant Objective (a), regarding the specification document for any trial needing to provide suitable protections to consumers, particularly vulnerable ones.

We consider that this modification has a positive impact on Relevant Objective (b). We agree with introducing the framework for trials into the UNC, because trials would be a necessary first step to testing key principles of NDM DSR. Developing the DSR market has the potential to reduce the likelihood of a NGSE, thus ensuring the coordinated, efficient and economic operation of the combined pipe-line system. As noted above, we do not consider that sufficient

mitigations are currently in place which would allow us to approve a specification document for a NDM DSR trial.

#### **(f) Promotion of efficiency in the implementation and administration of the Code**

The Proposer considers that this modification would have a positive impact on Relevant Objective (f) as the modification only introduces provisions for time limited NDM DSR Trials, rather than an enduring NDM DSR tool. They hold the view that this modification's proposed solution would prevent a full-scale solution from being implemented into the UNC which is not fully utilised or needs to be reformed or withdrawn due to operational learnings. Some Panel members were in agreement with this. Other Panel members believed that the modification would have no impact on Relevant Objective (f) as a trial may not identify insights that need to be considered for a permanent code change. Some consultation respondents shared the view that this modification would have a positive impact on Relevant Objective (f), with others considering that there would be no impact.

Some Panel members noted that the modification would have a negative impact on Relevant Objective (f), stating that the approach of having a separate specification document resulted in a lack of industry governance over a UNC matter. Those members believed that a UNC related document, requiring approval through UNC processes, would be a better vehicle, increasing transparency, and ensuring knowledgeable, expert and impacted parties' input.

Having carefully considered the FMR, the Panel views and consultation responses, we consider that this modification has a positive impact on Relevant Objective (f). We agree with the approach of this modification of introducing arrangements for time limited NDM DSR Trials. We are of the view that trials would be a necessary starting point for NDM DSR, rather than any enduring solution being implemented into the UNC which may not be utilised or may have to be modified or withdrawn.

We acknowledge the concerns raised by some Panel members regarding the specification being outside of the UNC process. However, we note that this modification does set out requirements for trial details to be within a specification document, and that NGT would be required to run a public consultation on any specification, for 28 business days, open to all

impacted parties.<sup>17</sup> NGT will then be required to send the specification document to Ofgem for approval or rejection. We also note the expectation stated in the FMR that if there is a future enduring solution, documentation would go through the UNC processes, via a code modification, thereby ensuring further Panel and industry input and assuaging any concerns of lack of industry governance over a UNC matter.<sup>18</sup>

***(d) so far as is consistent with sub-paragraphs (a) to (c) the 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***

A Panel member and a consultation respondent expressed concern that this modification would likely have a negative impact on Relevant Objective (d) as there would be an absence of effective competition in an NDM DSR Trial and therefore a risk that suppliers do not pass on a fair payment to consumers participating. Other Panel members noted that this could be mitigated by NGT making any trial findings public. The Proposer considers that there would be no impact on Relevant Objective (d). All other consultation respondents shared this view.

We consider that this modification would have no impact on Relevant Objective (d) as this modification only permits the principles of an NDM DSR Trial. Details of Shipper and Supplier involvement will be required in the specification document and competition impacts considered as part of the development and approval process. Any specification document will be subject to Authority approval, and we would carefully consider these issues.

### **Our principal objective and statutory duties**

The Authority's principal objective is to protect the interests of existing and future consumers, and particularly those with protected characteristics. Consumers' interests include amongst other things security of supply.

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<sup>17</sup> Paragraph 3 and 5 of the legal text [https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/UNC0856%20Draft%20Legal%20Text%20to%20the%20JO%2025.10.23\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/UNC0856%20Draft%20Legal%20Text%20to%20the%20JO%2025.10.23_0.pdf)

<sup>18</sup> UNC0856 Final Modification Report, page 8 of 18  
<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-12/Final%20Modification%20Report%200856%20v2.0%20with%20reps%20appended.pdf>

The proposed solution puts into the UNC the governance for future NDM DSR Trials, which would be a necessary first step to gathering data and furthering understanding of risks of any enduring NDM DSR product. A future NDM DSR product could significantly grow the DSR market, and thereby enhance GB security of supply.

At the same time, we understand that further work is required to adequately protect against potential harms to vulnerable consumers that may arise as a result of an NDM DSR Trial. This modification does not allow NDM DSR Trials to proceed. Although the basis of how the Authority would approve or reject a specification document is not set out in the legal text, the Authority's principal objective to protect the interests of existing and future consumers would be central to any decision to accept or reject any future specification document. The estimated costs of any trial and the maximum spend for Shippers will also be detailed in a specification document. These details will inform the Authority's decision on whether to approve or reject a specification document, to ensure that any trial is economic and efficient.

For the above reasons, we consider that approving UNC0856 is consistent with our principal objective to protect the interest of GB consumers.

## **Specification Document**

Panel members expressed concerns about asking domestic consumers, particularly vulnerable consumers, to reduce their gas usage at times of system stress, which are likely to be very cold days. They noted that any gas NDM DSR tool would require participants to reduce their gas usage across a whole gas day, while the current demand side response tool in the electricity market<sup>19</sup> requires participants to delay the use of energy intensive appliances for a short window. They were concerned about the impact of this on reducing levels of comfort in homes, albeit with compensation. Consultation respondents noted that their support for the modification and introducing the framework for NDM DSR Trials did not guarantee support of a specification document. They stated that approval of any specification document would only be given if it addressed and identified sufficient ways to mitigate risks associated with NDM consumers.

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<sup>19</sup> Demand Flexibility Service <https://www.nationalgrideso.com/industry-information/balancing-services/demand-flexibility-service-dfs>



We share these concerns. Requesting a demand reduction from domestic consumers, especially vulnerable consumers, carries unique risks. We share the view of consultation respondents that a specification document would need to adequately identify mitigations for risks concerning vulnerable consumers, if approval is to be given.

We note that while NGT stated in the FMR that they intended to develop an NDM DSR trial for Winter 2024/25 they have since published a statement saying they are not currently planning to proceed with an NDM DSR Trial and are not developing a specification document.<sup>20</sup> This follows broad stakeholder engagement which identified material risks, including to protecting vulnerable consumers.<sup>21</sup> We agree that the identified risks need to be addressed before the development of any future specification document.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC0856: 'Introduction of Trials for Non-Daily Metered (NDM) Demand Side Response (DSR)' should be made.

**Dr Adrian Richardson**

**Interim Deputy Director of Energy Markets & Security**

Signed on behalf of the Authority and authorised for that purpose

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<sup>20</sup> NGT NDM DSR Statement <https://www.gasgovernance.co.uk/sites/default/files/qgf/book/2024-03/NGT%20NDM%20DSR%20Statement%2001.03.24.pdf>

<sup>21</sup> NGT NDM DSR Statement