


UNC Modification	At what stage is this document in the process?
<div>UNC 0866:</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><div><div></div>considered a non-material change and subject to Self-Governance</div><div><div></div>assessed by a Workgroup</div></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		
Modification timetable:		
Pre-Modification Discussed	04 January 2024	
Date Modification Raised	08 January 2024	
New Modification to be considered by Panel	18 January 2024	
First Workgroup Meeting	01 February 2024	
Workgroup Report to be presented to Panel	18 April 2024	
Draft Modification Report issued for consultation	19 April 2024	
Consultation Close-out for representations	13 May 2024	
Final Modification Report available for Panel	20 May 2024	
Modification Panel decision	20 June 2024	
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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 0835R¹ 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;
- Amend the credit rules for Consumer DSR;
- Amend liabilities for failure to deliver when a DSR Option is exercised.

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:

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

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

- 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 2024².

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](#)

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](#)

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

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 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. 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 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. BR 6).
4. The information that NGT is obliged to publish post tender pursuant to UNC TPD 7.6.6 shall be expanded to include the number of Consumers participating, the number of Consumers that have had DSR Option Offers accepted and the weighted average option and exercise prices accepted per DSR product (within-day, D-1, D-5) where doing so will not prejudice the commercial confidentiality of individual DSR Option Offers.
5. The ability for tenderers to submit DSR Option Offers for later years Y+1 and Y+2 shall be removed (because no tenderer has yet submitted such offers in either the 2022 or 2023 tender).
6. 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 of exercise.
7. 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.
8. The minimum Option Quantity for a within-day DSR Option shall be increased to [200,000] kWh 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.
9. Subject to BR10, a Consumer's Winter Average Demand shall be equal to the standard deviation of daily demand of that Consumer over the Winter Periods of the past 3 years instead of the mean of the most recent Winter Period. If the mean of a Winter Period differs from the standard deviation by more than [20%], that year shall be removed from the calculation. If 3 years' worth of historical demand data is not available, the Winter Average Demand will be determined based on the available history.
10. If a Consumer considers that its Winter Average Demand will not be reflective of its demand in the future, that Consumer may submit a forecast of its daily demand for the forthcoming Winter Period which shall serve

as the deemed 'starting point' for demand reduction for the purposes of NGT assessment of a DSR Option Offer. Appropriate controls shall be designed around this, for example, NGT withholds part of the Option Fee, conducts a post winter check against actual demand and if there is a difference to the forecast which is greater than [x] kWh or [y]% of the forecast, the remainder of the Option Fee shall not be paid.

11. 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 1st October. (The Workgroup should assess the need for this in context of the revised tender timetable as amended by BRs 1 and 2).
12. 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.
13. 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.
14. A more dynamic method shall be adopted for determining the 'starting point' for exercise of Consumer DSR and D-5 Shipper DSR. Instead of being based on the Winter Average Demand, it shall instead be based on the mean average site demand for the previous [7] days. (It is noted that this would mean using data that is not closed out as exit close out is D+5).
15. When assessing compliance of a Consumer with an exercise instruction, a tolerance of [2]% of the exercised quantity shall be permitted.
16. If credit is a barrier to entry for Consumer DSR, NGT may offer an alternative whereby [50]% of the Option Fee is held back and paid after the end of the Winter Period, provided any exercise of the DSR Option has been complied with.

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>Improved safety and reliability</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>Lower bills than would otherwise be the case</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>Reduced environmental damage</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>Improved quality of service</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>Benefits for society as a whole</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>	Positive

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 impacts are envisaged.

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.