



Making a positive difference
for energy consumers

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
parties

Email: industrycodes@ofgem.gov.uk

Date: 07 September 2022

Dear Wanda and colleagues,

UNC modification proposal UNC0822: 'Reform of Gas Demand Side Response Arrangements' – decision on urgency

We¹ have received a request from National Grid NTS ("NGG", "The Proposer") that Uniform Network Code ("UNC") modification proposal UNC0822: 'Reform of Gas Demand Side Response Arrangements'² ("UNC822") should be given urgent status and follow expedited modification procedures. This letter confirms that we have agreed to that request, and sets out the timetable under which the modification will proceed.

Background

Existing Gas Demand Side Response ("DSR") arrangements provide a mechanism for large consumers of gas to offer to reduce their demand in return for a payment during times of system stress when a Gas Balancing Notification³ ("GBN") is in operation. The current DSR tool uses an exercise price⁴ only as there are currently no provisions for an options price.⁵

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this letter.

² Modification proposals are available at <https://www.gasgovernance.co.uk/livemods>

³ A Gas Balancing Notification is issued at NGG's discretion in advance of or during a gas day if a significant supply/demand event is experienced which instigates a material risk to the physical end-of-day balance.

⁴ An exercise price is a fee paid to a consumer if DSR is actually required by that consumer.

⁵ An option price is a fee paid to a consumer in order to be available for DSR. It is designed to recognise the costs incurred by parties to be available to make DSR offers, regardless of whether demand reduction is subsequently required.

Furthermore, current DSR arrangements require consumers to be capable of curtailing their gas demand within the gas day on which NGG accepts a DSR Market Offer.

The modification proposal

UNC822 would enable NGG to issue an invitation to Gas Shippers to offer DSR volumes at both an option price and an exercise price on behalf of, and following agreement with, consumers during a winter period if the consumer's Annual Quantity is greater than 2 million therms. Option payments would be capped at £5m per Winter Period, funded from the balancing neutrality account and would not form part of cashout price determination. The exercise price would contribute to cashout price determination, consistent with current arrangements.

It is also proposed to extend the trigger for opening the DSR market to also include the issue of a Margins Notice⁶ by NGG, in addition to the existing trigger of the issue of a GBN. This would enable consumers that are able to curtail their gas flow at the day ahead stage (but not within-day) to participate.

UNC Modification Panel View

We have not on this occasion sought a formal UNC Panel view on the proposals, as allowed for under paragraph 10.1.1(b) of the Modification Rules.⁷ We consider that the need to take swift action is justified.

Authority Decision

We have considered the Proposer's justification for urgency for the modification proposal and assessed the request against the urgency criteria set out in Ofgem's published guidance.⁸ The guidance sets out the factors that we will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case-by-case basis by reference to our guidance, and in circumstances where we depart from it, we will explain the reasons why.

⁶ A Margins Notice is information provided by NGG indicating a potential supply/demand imbalance for the following gas day.

⁷ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁸ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

In general, we consider that an urgent modification should be linked to an imminent issue⁹ or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. significant impact on the safety and security of the electricity and/or gas systems; or
- iii. party to be in breach of any relevant legal requirements.

The Proposer considers that this proposal satisfies the urgency criteria as it is linked to a current issue that may cause a significant commercial impact on GB gas market participants and more widely in GB. NGG states that gas DSR has the potential to be a valuable tool to reduce the likelihood and minimise the severity and duration of a gas deficit emergency, but that the existing arrangements will mean that DSR Market Offers are unlikely to be available this winter if required. NGG notes that the Russian invasion of Ukraine and subsequent reduction in gas supplies to the EU has created material risks to global gas markets and the EU and GB gas markets are linked both via physical assets and market arrangements. NGG considers that it is prudent to incentivise DSR Market Offers to be available as a mitigation against these risks.

While we have not made a judgement on the merits of this proposal specifically, we agree that it is appropriate to consider options to enhance the DSR tool on a shortened timescale so that the DSR tool is more likely to be effective if needed this winter and beyond. We acknowledge the uncertainty created by the Russian invasion of Ukraine and of the current high and volatile gas prices and consider it is prudent to take additional mitigations, at pace, in case a margins notice and/or GBN is issued by NGG. Further, we understand that the DSR tool, in its current form, may not be effective in incentivising DSR Market Offers and that enhancing the tool could provide valuable demand reduction preventing or lessening the impact of a Gas Deficit Emergency. Therefore, we consider this to be a potentially valuable tool for security of supply and consider it appropriate to shorten the timetable to allow any changes, if approved, to be in place for this winter.

We are satisfied that the progression of this modification proposal and the need to take prudent steps to improve the DSR tool is *"a current issue that if not urgently addressed may cause a significant impact on parties, consumers or other stakeholder(s)"* and have therefore agreed that the modification proposal should follow the urgent timetable as set out below.

⁹ The imminent issue may be date related.

Process	Date
Ofgem Decision on Urgency	07 September 2022
Modification Proposal issued for consultation	08 September 2022
Consultation Close-out for representations	22 September 2022
Final Modification Report available for Panel	26 September 2022
Modification Panel recommendation	28 September 2022
Final Modification Report issued to Ofgem	28 September 2022

We have considered the timetable presented by the Proposer. We recognise the importance of considering options to reduce the likelihood and minimise the severity and duration of a Gas Deficit Emergency, should it occur. For that reason, we are deciding to grant urgency to this modification.

The short timeframe between now and when the changes proposed (if approved) need to be implemented in time for this winter means a non-urgent modification is unlikely to be effective, even if otherwise suitable for implementation. Industry parties should not assume that a modification raised at such a late stage will be granted urgent status and should make every possible effort to bring forward proposals as soon as possible. In this particular case, we agree that the modification should follow the urgent timetable as set out by the Proposer. All possible efforts should be made to ensure that the time is used well, that stakeholders who might otherwise experience difficulty engaging in the consultation are proactively approached, and that the analysis is sufficient to properly inform a Panel vote and an Ofgem decision.

In reaching our decision on urgency we have made no assessment of the substance of the proposed modification and nothing in this letter in any way fetters the discretion of the Authority.

Yours sincerely,

Dr Adrian Richardson
Head of Energy Security of Supply