

Modification proposal:	Uniform Network Code (UNC) 822: Reform of Gas Demand Side Response Arrangements (UNC822)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	14 October 2022	Implementation date:	17 October 2022

Background

On 2 February 2016 we approved UNC504,³ which made necessary changes to the UNC to allow a Demand Side Response (“DSR”) mechanism for large consumers of gas to offer to reduce their demand in return for a payment during times of system stress or when a Gas Balancing Notification (“GBN”) is in operation.

Since implementation, there has been one occasion in which National Grid Gas (“NGG”) has issued a GBN, which was during the “Beast from the East”⁴ event in March 2018. However, no DSR Market Offers were made available to NGG. After conducting stakeholder engagement, NGG is proposing to reform the DSR Methodology in order to further incentivise large consumers of gas to make DSR Market Offers so that the scheme can be utilised for this coming winter and subsequent winters if required.

The modification proposal

On 5 September 2022, NGG (“the Proposer”) raised modification UNC822 requesting that it should be granted urgent status. UNC822 seeks to modify the UNC to enable NGG to issue an

¹ 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.

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

³ UNC504: Demand Side Response (DSR) Methodology Implementation (2 February 2016)
<https://www.ofgem.gov.uk/publications/uniform-network-code-unc-504-demand-side-response-dsr-methodology-implementation>

⁴ An extreme weather event that occurred in Great Britain in March 2018 and led to a supply/demand imbalance in the gas market.

invitation to all Users whose Annual Quantity is greater than 2 million therms (58.6 GWh). This invitation will seek commitments from these Users to make DSR Market Offers for the forthcoming Winter Period and the next two Winter Periods.

The shipper would receive a payment (“option payment”) for each accepted offer from this process, which would be passed on to the end-consumer who would provide the physical flow curtailment. These option payments will be funded from balancing neutrality and shall not exceed a value specified in the DSR Methodology, initially set at £5m per Winter Period, without review by the Authority. The trigger for opening the DSR Locational Market will be extended to also include the issue of a Margins Notice by National Grid NTS, in addition to the existing trigger of the issue of a GBN. This would enable consumers to commit to curtail their gas flow at the day ahead stage.

UNC Panel⁵ recommendation

At the UNC Panel meeting on 28 September 2022, the UNC Panel considered that UNC822 would better facilitate the UNC objectives and recommended its approval unanimously.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (“FMR”) dated 28 September 2022. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.⁶ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;⁷ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁸

⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁶ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁷ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

⁸ 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 as amended.

Reasons for our decision

We consider this modification proposal will better facilitate UNC Relevant Code Objectives (“RO”) (a) and (b), and will have no impact on the other relevant objectives.

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

We consider that the proposal has a positive impact on RO (a).

The Proposer considers that RO(a) will be furthered by UNC822, which is designed to encourage voluntary DSR and thus mitigate the risk of a supply shortage escalating to declaration of a Gas Deficit Emergency (“GDE”). Should a GDE be declared, the Proposer states that compulsory firm load shedding would result in disruption and inefficiency in the operation and use of the network as some parties that wish to be taking gas would be prevented from doing so.

Some Panel Members agreed that implementation would have a positive impact on RO(a) because the modification should enable gas supplies to be maintained to consumers who are not eligible to participate in voluntary DSR, who might otherwise be subject to firm load shedding if the situation progressed to a GDE. However, one Panel Member argued that the operational burdens and liabilities on the Shipper are not reflective of the potential benefits and thus would have a negative impact on RO(a).

One consultation respondent supported the modification in principle but noted that it places significant liabilities on the Shipper essentially as a billing agent for passing the Option and Exercise payments onto the customer as well as ensuring processes are in place for posting these offers on the DSR Locational Market, including at weekends when most non-Domestic Suppliers are not open for business, with little to no benefit to the Shipper. The respondent does not believe that the liabilities on the Shipper are reflective of the potential benefits and thus would have a negative impact on RO(a).

We consider that this modification would better facilitate RO(a) as we expect the Proposal to enhance the DSR tool that is currently available. We are aware following NGG’s stakeholder engagement and the real-world evidence from the Beast from the East (where no DSR offers

were made following the issue of a GBN) that the existing tool may be insufficient should it be needed this winter. We consider that a functional DSR tool is likely to prevent or lessen the impact of a supply/demand imbalance, should it occur, and that it is appropriate to strengthen the DSR tool considering the increased range of uncertainty in the European gas market created by the Russian invasion of Ukraine and of the current high and volatile gas prices.

We acknowledge the concerns raised by the consultation respondent and Panel Member that this modification places an operational burden on Shippers, who would in effect be intermediary agents between NGG and the consumer who provides the DSR. However, we also note the disruption that would be caused should a GDE occur in the absence of the enhanced DSR tool. On balance, it is our view that the modification will better facilitate the efficient and economic operation of the pipe-line system. We understand that, as a Transmission System Operator, NGG's role with end consumers is limited under business-as-usual activities (i.e., outside of an emergency) under the Gas Act 1986 and, therefore, it is appropriate for a Shipper to have a role in the DSR process.

We recognise that potential DSR participants may incur costs in order to be available to offer DSR should it be needed, and this was reflected in stakeholder feedback at industry events⁹ held by NGG. Therefore, we consider it appropriate that the DSR tool should be adapted to administer an invitation to offer process which includes the introduction of payments to compensate consumers for their DSR availability. We consider that the process described by NGG to facilitate this invitation promotes offers through open and transparent market-based arrangements, as the invitation will be issued to all Gas Shipper Users and the criteria for NGG to select DSR Offers is pre-set and described in the DSR Methodology.

We note that the proposal to extend the trigger for accepting DSR Offers to where a Margins Notice has been issued is inconsistent with Special Condition 9.22.3(c) of the NTS Licence,¹⁰ which states that DSR Offers must only be accepted where a GBN is in place or within stage 1 of a GDE. NGG has applied separately for a derogation of this Special Condition.¹¹ During stakeholder engagement¹² hosted by NGG, stakeholders mentioned that a longer lead-time for

⁹ UNC Transmission Workgroups and meetings with industrial manufacturers.

¹⁰ Standard Special Condition 9.22 of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

¹¹ Our decision on the derogation of Special Condition 9.22.3(c) of NGG's Gas Transporter Licence has also been published on our website, alongside our decision on NGG's DSR Methodology, on 14 October 2022.

¹² Meetings with industrial manufacturers.

NGG to alert Shippers and exercise DSR would improve their ability to participate. Although we understand this to potentially mean a lead-time of weeks or months, we consider that it is appropriate to extend the DSR window to include the issue of a Margins Notice as it may increase the opportunity for some consumers and their Shippers to participate.

For these reasons, we consider that UNC822 enhances the existing DSR Methodology. We consider that a more effective DSR tool could potentially prevent or lessen the impact of a supply/demand imbalance. This would better facilitate the economic and efficient operation of the pipe-line systems as it may reduce the need for some enforced load-shedding that may occur in a GDE which would otherwise result in disruption and inefficiency to the systems. Therefore, we consider this modification as having a positive impact on RO (a).

(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

We consider that the proposal has a positive impact on RO (b).

The Proposer considers that RO(b) will be furthered by UNC822 due to its mitigation of a GDE being declared. If such an event occurred, NGG state, that in addition to firm load shedding on the National Transmission System, Gas Distribution Networks may be given instructions to implement the shedding of firm loads within their networks resulting in disruption and inefficiency at Local Distribution Zone level too. All Panel Members agreed that there would be a positive impact on RO(b) as the modification is designed to reduce the likelihood and/or severity of a GDE. Panel Members noted that stage 2¹³ of a GDE would be likely to have a significant impact upon parties connected both to the NTS and to GDNs through compulsory firm load shedding resulting in less efficient and disrupted operation of the pipeline systems.

We agree that this modification would better facilitate RO(b) because we consider that the modification would enhance the DSR tool by allowing more large consumers to participate. Increasing uptake of DSR, if needed, may reduce the likelihood or severity of a GDE. As a result, it may mitigate some of the consequences of a GDE, such as enforced load shedding and disrupted operation of the system. Consequently, the enhancement of the DSR tool may

¹³ Stage 2 of a GDE permits actions to be taken to facilitate the supply/demand balancing of the NTS, such as maximising supplies and firm load shedding (the reduction or discontinuance of gas in a pre-determined merit order).

ensure a more co-ordinated, efficient and economic operation of pipe-line systems compared to the situation where a supply/demand imbalance was to occur in the absence of the enhanced DSR tool.

Further development

Some consultation respondents made suggestions as to how the DSR tool could be further improved and both the Proposer and Panel Members noted that a review of the effectiveness of the modification should be undertaken, if implemented. We consider it appropriate for this modification to be implemented as currently described but welcome the suggestion for continued development. We encourage NGG to review the suggestions made in the UNC consultation and to consider how consumers' access to DSR may be broadened to further contribute towards the effectiveness of the DSR tool for this winter and beyond. We look forward to working with all parties on this and encourage NGG to utilise all tools it has available to test appropriate alternative arrangements to support GB security of supply. In order to develop options at pace, it may be appropriate for NGG to trial options alongside its launch of the enhanced DSR tool described within this modification.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC822: *'Reform of Gas Demand Side Response Arrangements'* be made.

Dr Adrian Richardson
Head of Energy Security of Supply

Signed on behalf of the Authority and authorised for that purpose