









UNC Modification	At what stage is this document in the process?
<h1 data-bbox="132 322 657 414">UNC 0833:</h1> <h2 data-bbox="132 450 1142 663">Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions</h2>	<div data-bbox="1209 309 1468 627"> <div data-bbox="1209 309 1468 383">01 Modification</div> <div data-bbox="1209 389 1468 463">02 Workgroup Report</div> <div data-bbox="1209 470 1468 544">03 Draft Modification Report</div> <div data-bbox="1209 551 1468 627">04 Final Modification Report</div> </div>
<p data-bbox="129 710 507 743">Purpose of Modification:</p> <p data-bbox="129 766 474 799">This Modification would:</p> <ul data-bbox="177 822 1409 992" style="list-style-type: none"> <li data-bbox="177 822 1409 896">• Enable National Grid NTS to effect Gas Demand Side Response (DSR) trades with Users that do not have access to the On-the-Day Commodity Market (OCM); and <li data-bbox="177 916 1334 992">• Correct two drafting oversights from UNC0822 – Reform of Gas Demand Side Arrangements https://www.gasgovernance.co.uk/0822 	
<p data-bbox="129 1039 306 1072">Next Steps:</p> <p data-bbox="129 1093 1394 1167">The Proposer recommends that this Modification should be treated as Urgent and should proceed as such under a timetable agreed with the Authority</p>	
<p data-bbox="129 1211 397 1245">Impacted Parties:</p> <p data-bbox="129 1263 1445 1337">High: Large Industrial and Commercial Consumers, Shippers, National Grid Gas (NGG), On-the-Day Commodity Market (OCM) Market Operator</p> <p data-bbox="129 1355 197 1388">Low:</p> <p data-bbox="129 1406 217 1440">None:</p>	
<p data-bbox="129 1487 389 1520">Impacted Codes:</p> <p data-bbox="129 1550 563 1583">UNC and potentially iGT Code</p>	

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Timetable			Systems Provider: Xoserve
Modification timetable:			 UKLink@xoserve.com
Date Modification Raised	29 November 2022		
Ofgem decision on Urgency	01 December 2022		
Modification Proposal issued for Consultation	01 December 2022		
Consultation Close-out for Representations	02 December 2022		
Final Modification Report available for Panel	06 December 2022		
Modification Panel Recommendation	07 December 2022		
Final Modification Report issued to Ofgem	07 December 2022		

1 Summary

What

In accordance with the changes implemented under Urgent Modification 0822 - Reform of Gas Demand Side Response Arrangements (<https://www.gasgovernance.co.uk/0822>), ahead of each forthcoming Winter Period, National Grid NTS is required to issue an invitation to offer to all Users seeking commitments to offer DSR quantities on behalf of consumers with an Annual Quantity (AQ) greater than 2m therms per annum (pa) for the next three Winter Periods. The first such invitation was launched on 18 November 2022 and will close on 09 December 2022. If a User has a DSR option accepted by NGG, that same User would then be obliged to post DSR Market Offers onto the OCM at times of supply shortage, triggered either by a Margins Notice or a Gas Balancing Notification (GBN).

Why

Since Urgent Modification 0822 was implemented on 17 October 2022, National Grid NTS has been engaging with Users with an Industrial and Commercial portfolio about the likelihood of DSR options being offered and whether there are any barriers in relation to this. One barrier is that some Users that are considering participating do not have access to the OCM and therefore could not post a DSR Market Offer if required. This situation can arise if there are separate User entities within the same group company; one that holds the contract with the consumer (the 'retail User') and the associated retail obligations which does not have access to the OCM and another (the 'trading User') which manages the trading functions on behalf of that organisation which does not hold the contract with the consumer. Non-Trading System Transactions are provided for in UNC but at present may only be utilised when a GBN is in force (not a Margins Notice) and are not at present permitted to be used as the means of transacting a DSR Market Offer, for which the OCM alone is allowed.

This Modification also seeks to correct two drafting oversights from Urgent Modification 0822.

- Urgent Modification 0822 enabled Users to post, and National Grid NTS to accept, DSR Market Offers during the period in which a Margins Notice is in force as well as a GBN, however, UNC currently provides that National Grid NTS and Users shall not have visibility of such DSR Market Offers until a GBN (only) is issued.
- The units applicable to a DSR Option Price should be specified in p/kWh/day rather than p/kWh.

How

The UNC will be modified to enable:

- (i) National Grid NTS and Users that have had DSR Options accepted but do not have OCM access to effect DSR Locational Market Transactions as Non-Trading System Transactions (i.e. as 'over-the-counter' trades);
- (ii) National Grid NTS and Users to have visibility of DSR Market Offers during a Voluntary DSR Period (which post implementation of UNC0822 may be triggered either by a Margins Notice or GBN); and
- (iii) Amend the units in which DSR Option Prices are submitted from p/kWh to p/kWh/day.

2 Governance

Justification for Urgency

Ofgem's guidance for the circumstances under which a Modification Proposal would be considered for Urgent procedures, specifies that it should be linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholders, a significant impact on the safety and security of the electricity and/or gas systems or cause a party to be in breach of any relevant legal requirements.

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 (GDE). Based on stakeholder engagement, some Users have Consumers that are willing to participate but are prevented from doing so by the structure of the User's business.

The current National Grid NTS DSR tender process closes on 09 December 2022, therefore this Modification is required urgently to enable these Users to participate on behalf of those Consumers and thus help mitigate the risk of a GDE occurring which, if it transpired, would have a significant commercial impact on parties including consumers and other stakeholders.

Requested Next Steps

This Modification should be treated as Urgent and should proceed as such under a timetable agreed with the Authority.

3 Why Change?

The DSR arrangements provide a mechanism for large consumers of gas to offer to reduce their demand via their User in return for a payment that they define during times of system stress.

The DSR arrangements as reformed by Modification 0822¹ take the form of "option" and "exercise" stages with separate payments made for each. In accordance with the changes implemented under Urgent Modification 0822, ahead of each forthcoming Winter Period, National Grid NTS is required to issue an invitation to tender to all Users seeking commitments to offer DSR quantities on behalf of consumers with an AQ greater than 2 million therms pa for the next three Winter Periods. The first such invitation was launched on 18 November 2022 and will close on 09 December 2022. If a User has a DSR Option accepted by National Grid NTS, that same User would then be obliged to post DSR Market Offers onto the OCM at times of supply shortage, triggered either by a Margins Notice (MN) or a GBN.

Since Urgent Modification 0822 was implemented and the current invitation process launched, National Grid NTS has been engaging with Users with an industrial and commercial portfolio about the likelihood of DSR options being offered and whether there are any barriers in relation to this. One barrier is that some Users that are considering participating do not have access to the OCM and therefore could not post a DSR Market Offer if required. This is because there are sometimes separate User entities within the same group company; one that holds the contract with the consumer and the associated retail obligations which does not have access to the OCM and another which manages the trading functions on behalf of that organisation which does not hold the contract with the consumer. Non-Trading System Transactions are provided for in UNC but at present

¹ <https://www.gasgovernance.co.uk/0822>

may only be utilised when a GBN is in force (not a MN) and are not permitted to be used as the means of transacting a DSR Market Offer, for which the OCM alone is allowed.

Alternative Options

National Grid NTS has worked with the Users concerned and explored the following alternative options:

Option	Reason for rejection
1. The retail User applies for access to the OCM via the market operator, ICE Endex	Users rejected this option on grounds of cost, operational complexity of introducing a trading function into a retail shipper business and the inability to complete the process within the required timescale
2. The trading User becomes a second Registered User in respect of the relevant Supply Point	This was explored with the CDSP; the only way this could be done is setting the Supply Point up as a Shared Supply Meter Point. This was rejected on timescale grounds and also because the trading User did not wish to take on retail obligations.
3. Agency arrangement whereby the trading User submits DSR market Offers on behalf of the retail User	This was rejected on grounds of complexity and timescale. System changes were also considered to be potentially required to link the two shipper accounts in Gemini in order that gas could be allocated to the correct User and to ensure the correct imbalance positions.

The concept of Non-Trading System Transactions has formed a part of the UNC for many years and was designed to cover a situation where National Grid NTS had a requirement to trade for residual balancing purposes at times of system stress, where OCM liquidity was inadequate but where there was liquidity in other markets or bi-laterally available from parties not active on the OCM. It is therefore considered that expansion of the concept to include DSR transactions is consistent with this original intent.

Drafting Corrections to UNC0822

Urgent Modification 0822 was progressed on accelerated timescales to enable DSR Options to be implemented for this winter. Due to the nature of that urgent process, it was always possible that drafting errors would later become apparent. National Grid NTS has identified two such errors which this Modification also seeks to correct.

1. UNC0822 enabled Users to post, and National Grid NTS to accept, DSR Market Offers during the period in which a Margins Notice is in force as well as a GBN, however, UNC currently provides that National Grid NTS and Users shall not have visibility of such DSR Market Offers until a GBN (only) is issued.
2. The units applicable to a DSR Option Price should be specified in p/kWh/day rather than p/kWh.

Consequences of Non-implementation

If this change is not made, National Grid NTS access to potentially material quantities of DSR that consumers have indicated they are willing to offer will be denied.

4 Code Specific Matters

Reference Documents

- Urgent Modification [0822](#) "Reform of Gas Demand Side Response Arrangements"

- National Grid [Gas Demand Side Response Methodology](#)
- [Decision \(https://www.gasgovernance.co.uk/0822\)](https://www.gasgovernance.co.uk/0822) on the proposed Modifications to the DSR Methodology of National Grid's Gas Transporter Licence and Decision further to National Grid's request for Derogation from Special Condition 9.22.3(c) of its Gas Transporter Licence.

Knowledge/Skills

An awareness of the current DSR rules in UNC (as revised by Urgent Modification 0822) and where they feature in the emergency arrangements would be helpful. In the UNC, these are contained in TPD sections D5 and D7.

5 Solution

The UNC will be modified to enable:

- (i) National Grid NTS and Users that have had DSR Options accepted but do not have OCM access to effect DSR Locational Market Transactions as Non-Trading System Transactions (i.e. as 'over-the-counter' trades);
- (ii) National Grid NTS and Users to have visibility of DSR Market Offers during a Voluntary DSR Period (which post implementation of UNC0822 may be triggered either by a Margins Notice or GBN); and
- (iii) Amend the units in which DSR Option Prices are submitted from p/kWh to p/kWh/day.

6 Impacts & Other Considerations

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

None.

Consumer Impacts

This Modification will enable some large consumers of gas who are potentially willing to offer DSR volumes to respond to the National Grid NTS DSR Invitation to Offer via their User where otherwise that User is unable to fulfil the condition of acceptance of such offer as that User cannot post DSR Market Offers onto the OCM when either a Margins Notice or GBN is triggered.

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

Consumers that are able to offer DSR but are prevented from doing so for the reasons highlighted in this Modification are likely to be frustrated that their offering cannot be accommodated due to the organisational set-up of their User.

The new consumer experience would be to enable this DSR offering to come to market in a way that would work for the relevant consumer.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p>Improved safety and reliability</p> <p>Where insufficient physical supply to meet demand is forecast, the inability of consumers to voluntarily reduce demand on the system could lead to a greater probability of a GDE, and the associated increased risks to network safety and reliability which result from falling pressures.</p> <p>This Modification is designed to encourage additional voluntary curtailment such that this pre-emergency tool would be available to National Grid 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 would rise in response to the insufficient supply situation that would trigger such an event.</p>	Positive
<p>Reduced environmental damage</p> <p>This Modification could result in a limited amount of fuel-switching. Use of back-up fuel could have a higher emissions intensity than natural gas but is only likely to need to be used on a few days.</p>	Negative
<p>Improved quality of service</p> <p>Declaration of a GDE resulting in compulsory firm load shedding would result in a significant impact on the 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 could cause could result in a major economic and societal impact for the country. This Modification would provide additional mitigation against such risks arising.</p>	Positive

Cross-Code Impacts

There may need to be an equivalent Modification to the iGT Code to ensure non-discrimination among all users.

EU Code Impacts

None.

Central Systems Impacts

No impacts on central systems will arise in order to implement this Modification.

National Grid NTS would need to amend its own operational procedures for acceptance of non-OCM trades for DSR purposes and its arrangements that are in place with ICE Endex, the OCM market operator. The following would be required:

- Use of National Grid NTS' proforma for OTC trades to cover DSR Market Offers;
- Logging and matching the trade in Gemini with the relevant User;
- The User completing the relevant confirmation form; and
- National Grid NTS sending the accepted trade details to ICE Endex for inclusion in the calculation of system prices for that Day.

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 further voluntary curtailment and thus mitigate the risk of a supply shortage escalating to declaration of a GDE. Should a GDE be declared and progress to Stage 2 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

A decision by the Authority is sought not later than 08 December 2022, with implementation effective from 05:00 on 09 December 2022 to allow this solution to be in place in time for the relevant Users to submit DSR Option offers by the current DSR Invitation to Offer deadline.

If a decision is received by 09 December 2022, then the implementation date should be 12 December 2022.

If a decision is received after 09 December 2022 and before 22 December 2022, the implementation date should be 23 December 2022.

These latter two implementation dates would be after the closure of the DSR Option tender but within the tender allocation period.

9 Legal Text

Legal Text and Text Commentary

The legal text and associated commentary shall be provided prior to the beginning of the consultation period.

10 Recommendations

Proposer’s Recommendation to the Authority

The Authority is asked to agree that this Modification should be treated as Urgent and should proceed as such according to a timetable agreed by the Authority.