

Modification proposal:	Uniform Network Code (UNC) 833: Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions (UNC 833)		
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:	08 December 2022	Implementation date:	05:00, 09 December 2022

Background

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. On 14 October 2022, Ofgem approved UNC822³ which introduced updates to the DSR tool. The new rules enable Users⁴ who have a DSR options offer accepted by National Grid Gas (“NGG”) to post a DSR Market Offer in respect of the relevant consumer on the On-the-day Commodity Market (OCM) DSR Locational Market. The offer is triggered either by a Margins Notice or a Gas Balancing Notification⁵ (“GBN”). Since the implementation of UNC822, NGG 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 identified by NGG is that some Users that are considering participating do not have access to

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 <https://www.ofgem.gov.uk/publications/unc822-reform-gas-demand-side-response-arrangements-decision>

⁴ User : for the purposes of these Rules, references to a User:

(a) in the context of an Individual Network Code Modification Proposal, includes

(i) a Relevant Shipper;

(ii) a Trader User;

(iii) in the context of the definition of Relevant Transporter, sub paragraph

(b), a DNO User; and

(b) in all other contexts excludes a DNO User

[6966731.11 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/6966731.11)

⁵ 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.

the OCM and therefore could not post a DSR Market Offer. NGG have also identified drafting oversights in UNC822 including issues on visibility and units for the DSR options Price.

The modification proposal

On the 29 November NGG (“the Proposer”) raised modification UNC833 requesting that it should be granted urgent status. On 1 December 2022, we approved the urgency request⁶, so that the timeline for UNC833 could align with the current NTS DSR tender process, which would allow any changes to be in place for this Winter. UNC833 seeks to modify the UNC to enable NGG and Users to make DSR Locational Market Transactions as Non-Trading System Transactions (i.e., as ‘over-the-counter’ trades). The Proposer states that this is to allow Users who do not have access to the OCM to participate in DSR trades as specified in UNC822.

It also proposes to modify the UNC to:

1. Allow NGG to enter into Non-Trading Systems Transactions with Users in relation to a Day on which a Margins Notice is in force, as well as a GBN;
2. Allow NGG and Users to have visibility of DSR Market Offers during a Voluntary DSR Period (which post implementation of UNC822 may be triggered either by a Margins Notice or GBN); and
3. Amend the units in which DSR Option Prices are submitted from p/kWh to p/kWh/day.

UNC Panel⁷ recommendation

At the UNC Panel meeting on 07 December 2022, a majority of the UNC Panel (eleven out of a possible twelve voting members) considered that UNC833 would better facilitate the UNC objectives and the Panel therefore recommended its approval. The UNC Relevant Objectives that were considered by the Panel were (a), (b), (d) and (f). Among the Panel members representing consumers, both the domestic consumer voting member and the non-domestic consumer voting member recommended implementation.

⁶UNC833 Urgency Decision: <https://www.ofgem.gov.uk/publications/urgency-decision-unc833-and-dsr-derogation-decision>

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report ("FMR")⁸ dated 07 December 2022. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR.⁹ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;¹⁰ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

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

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

We consider that the proposal will have a positive impact on Relevant Code Objective (a).

The Proposer considers that Relevant Code Objective (a) will be furthered by this modification because it will encourage further participation in DSR which will help to mitigate the risk of a supply shortage escalating to a Gas Deficit Emergency (GDE).¹² They also state that, 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 who would

⁸ The FMR for UNC833: [0833 \(Urgent\) - Enabling Demand Side Response \(DSR\) Market Offers to be made by Non-Trading System Transactions | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

⁹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹⁰ 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>

¹¹ 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.

¹² A Gas Deficit Emergency is one type of National Gas Supply Emergency, and is defined on page 17 of the Network Gas Supply Emergency Procedure: <https://www.nationalgrid.com/gas-transmission/document/136281/download>

wish to be taking gas would be prevented from doing so. Some Panel members agreed with this view.

One respondent to the consultation supported implementation as it widens the opportunity for Shippers to engage with the winter DSR arrangements. Another stated that the modification adds clarity to the UNC in relation to DSR and recognised the benefit to industry as a tool to reduce the risk of a GDE. Some Panel members agreed with this view.

One Panel member expressed concerns that currently Shippers are experiencing significant commercial pressures and do not believe that the liabilities on Shippers are reflective of the potential benefits of this modification and UNC822. This Panel member supported the principle of the proposed Gas DSR arrangements but on balance believes that the arrangements would have a negative impact on Relevant Objective (a).

We consider that this modification would better facilitate Relevant Objective (a) as it will correct some drafting errors (relating to the visibility of the DSR market offers and the units used to calculate the DSR option price), which would allow DSR to be used efficiently this Winter, and thus promote the efficient and economic operation of the pipe-line system. We consider that the changes proposed will result in a more effective DSR tool and this could help mitigate the risk of a supply shortage escalating to a Gas Deficit Emergency (GDE). Furthermore, a more effective DSR tool may reduce the need for enforced load-shedding (which could occur in a Gas Deficit Emergency) and would result in disruption and inefficiency to the pipe-line system as some parties who wish to take gas would be prevented from doing so.

For these reasons, we consider that the modification would better facilitate the economic and efficient operation of the pipe-line system. Therefore, we consider this modification as having a positive impact on Relevant Objective (a).

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. The Proposer stated at Panel that Shippers can choose their offer price, as introduced in UNC822, and can thus reflect the costs they will bear here. In addition, 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.

(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 will have a positive impact on Relevant Code Objective (b).

The Proposer considers that Relevant Code Objective (b) is furthered by this modification. The Proposer believes that if a GDE event occurred, in addition to firm load shedding on the NTS, Gas Distribution Networks may be given instructions to implement load shedding within their networks resulting in disruption and inefficiency at LDZ level too. Some Panel members agreed with this view, noting that the modification is designed to encourage further voluntary curtailment, and this mitigates the risk of a supply shortage escalating to a GDE.

Other Panel members considered the Modification may be neutral in terms of its impact on Relevant Objective (b) through lack of clarity relating to communication with DNOs.

We consider that the modification would enhance the DSR tool by allowing more Users to participate. Increasing uptake of DSR, may reduce the likelihood or severity of a National Gas Supply Emergency (NGSE). As a result, it may mitigate some of the consequences of a NGSE, such as enforced load shedding at the national and distribution level, which would cause disruption to the operation of the pipe-line systems. Furthermore, we note the Proposer has included a post consultation amendment to their DSR methodology (in response to stakeholder feedback). This includes a provision to notify GDNs when DSR is exercised with a consumer connected to their network. We consider this change will facilitate a better whole-system outcome and the coordinated operation of the combined pipe-line system.

Therefore, we consider that the modification furthers Relevant Objective (b).

(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

We consider that the proposal will have a positive impact on Relevant Code Objective (d).

Some Panel Members believed the modification will have a positive impact on Relevant Objective (d) because it allows additional Parties to participate in the DSR process.

Panel members noted that an Independent Gas Transporter Uniform Network Code (IGT UNC) modification may be needed to allow for IGT parties to participate in the DSR scheme as set out in UNC822 and UNC833 respectively. They expressed concern that there is potential for a negative impact on competition if IGT parties are not included in the process.

We agree that this modification will increase Shippers participation in DSR schemes. It will allow those Shippers who are currently unable to access and participate in DSR (via the OCM), to do so (via Non-Trading Systems Transactions i.e., 'over-the-counter' trades). This will increase competition and thereby further Relevant Objective (d). We acknowledge the views of some Panel members that IGTs should be included in the process, and we encourage a corresponding IGT modification to be raised to allow all customers to participate. On balance, we consider that the modification furthers Relevant Objective (d).

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

We consider that the proposal will have a positive impact on Relevant Code Objective (f).

Some Panel Members believed that the modification would have a positive impact on Relevant Objective (f) because it corrects drafting errors relating to the visibility of DSR Market Offers before a GBN is issued, and the units applicable to a DSR Option Price.

We agree that the modification corrects drafting errors and therefore promotes the efficient implementation of the code. Therefore, we consider the modification proposal furthers Relevant Objective (f).

Use Of Urgency

Some Panel members said that the use of urgency has caused unnecessary added time and expense in relation to both UNC822 and UNC833. A Panel member suggested that the UNC modification process offers a rigorous process for stakeholder engagement and did not agree that the bilateral processes used by the Proposer were an adequate substitute for the UNC process.¹³ Some Panel members also expressed concern that a lack of impact assessment means further issues with the DSR scheme may still need to be addressed. Other Panel members were of the view that Urgency should not have been applied because the DSR scheme is voluntary and may have no impact on the matter it is aimed at solving. Furthermore, the Joint Office received a letter¹⁴ from the I&C Shippers and Suppliers (ICoSS) dated the 6 December 2022 that states the use of urgency process for these changes (UNC833 and UNC822) has resulted in poor outcomes. They believe that these changes should have been raised earlier.

The Proposer noted that there had been several pre-modification and post-modification engagements for UNC822 and UNC833. In the Proposer's consultation response, they state they are aware of the provisions of the modification rules in respect of Urgent Modifications and would support a post-implementation discussion in the relevant workgroup and/or panel. We acknowledge and support the need for post-implementation discussions on DSR, to reflect on how DSR was used in practise, whether it was effective and whether any further changes are required. This should take place at an appropriate pace to incorporate industry feedback.

¹³

Bilateral processes can be seen on page 10 and 11 of the FMR report: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2022-12/Final%20Modification%20Report%200833%20v2.0%20with%20reps%20appended.pdf>

¹⁴ Letter from I&C Shippers and Suppliers: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2022-12/ICoSS%20letter%20regarding%20UNC%20Modifications%200822%20%26%200833%20v2.0.pdf>

We outlined in our decision (published on 1 December 2022) our reasons for granting urgent status to UNC833 and considered that urgency would enable more Users to participate in the current DSR process. Increasing participation in DSR this winter could provide valuable demand reduction, preventing or lessening the impact of an NGSE. We considered that if this was not urgently addressed, it may cause a significant commercial impact on parties, consumers or other stakeholders, regardless of the voluntary nature of DSR. Please see our urgency decision letter for more detail.¹⁵ However, 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 at an early stage and ensure proposals that are brought forward fully consider the issue at hand to avoid as far as possible the need for follow-up modifications.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC833: *'Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions'* be made.

Maryam Khan

Head of GSO Regulation

Signed on behalf of the Authority and authorised for that purpose

¹⁵ Our decision on urgency for UNC833: <https://www.ofgem.gov.uk/publications/urgency-decision-unc833-and-dsr-derogation-decision>