

National Grid Gas Plc and all  
other interested parties and  
stakeholders,

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## **Decision on the proposed modifications to the Demand Side Response (“DSR”) Methodology of National Grid Gas plc’s (“NGG”) Gas Transporter Licence.**

This letter sets out our<sup>1</sup> consent for NGG to revise the Gas Demand Side Response (“DSR”) Methodology in accordance with Special Condition 9.22.4 of NGG’s Gas Transporter Licence (“the Licence”).<sup>2</sup>

### **Background**

Special Condition 9.22.1 of the Licence requires NGG to have in place and maintain the DSR Methodology for assessing and accepting DSR offers. NGG must review its DSR Methodology at least once in every period of two Regulatory Years in accordance with 9.22.4 and consult with interested parties for a period of no less than 28 days in accordance with 9.22.5. Within seven days following the consultation close NGG must submit to the Authority a report on the outcome of the review, a statement of any proposed revisions to the DSR Methodology, and any written representations that were received from interested parties pursuant to 9.22.6 of the Licence.

On the 29 November 2022, NGG raised UNC833: ‘Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions’.<sup>3</sup> This modification sought to further incentivise uptake of the DSR product by introducing new reforms to the

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<sup>1</sup> 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.

<sup>2</sup> National Grid Gas plc, Gas Transporter Licence, Special Conditions:  
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

<sup>3</sup> [0833 \(Urgent\) - Enabling Demand Side Response \(DSR\) Market Offers to be made by Non-Trading System Transactions | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

existing methodology. On the same day NGG made an application to Ofgem pursuant to Special Condition 9.22.12, requesting a derogation from Special Condition 9.22.5 so they may consult on the revisions to the DSR Methodology for no less than one day instead of 28 days as prescribed by the Licence. On 1 December 2022 we published our decision to grant the requested derogation.<sup>4</sup> On 1 December 2022, NGG published its proposed amendments to the Gas DSR Methodology in accordance with the reforms embedded in UNC833.

### **Proposed amendments to the Gas DSR Methodology**

In accordance with Special Condition 9.22.8, we must assess any proposed revisions to the DSR Methodology and have particular regard to whether they are consistent with the objectives set out in Special Condition 9.22.3.

The proposed changes seek 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 don't have access to the OCM to participate in D-1 trades as specified in UNC822.
- 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 Gas Balancing Notification (GBN);
- 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
- Amendments to the units in which DSR Option Prices are submitted from p/kWh to p/kWh/day.
- National Grid NTS to endeavour to notify the relevant Gas Distribution Network (GDN) where DSR is exercised by a Consumer connected to their network.

In its Gas DSR Consultation Report submitted to the Authority on 5 December 2022, NGG considered that the proposals in UNC833, which are reflected in the proposed revisions to the DSR Methodology, better facilitate the DSR principles set out in Special Conditions 9.22.3(e), (g) and (h).

Special Condition 9.22.3(e) states that the DSR Methodology must promote, and further facilitate, parties making DSR Offers to NGG through open and transparent market-based arrangements. NGG state that the proposals put forwards as part of UNC0833 further facilitate this principle. NGG has received feedback on the requirement for the User to place

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<sup>4</sup><https://www.ofgem.gov.uk/publications/urgency-decision-unc833-and-dsr-derogation-decision>

DSR Offers onto the OCM is a potential barrier for participation. Some Users are set up with separate “retail” and “trading” organisations, whereby the trading organisation has access to the OCM, but the retail organisation has the contract with the consumer that will offer the demand reduction. Therefore, permitting Non-Trading System Transactions (i.e., as ‘over-the-counter’ trades) for DSR purposes would allow these users to participate in DSR and will give NGG access to additional DSR volumes, which would not have been available otherwise. Additionally, NGG states that by updating the Voluntary DSR Period to allow both Users and National Grid to have visibility of Offers following a Margins Notice, it further supports this principle by facilitating an increased lead time for demand reduction, thus potentially increasing the number of Users who can participate in DSR.

Special Condition 9.22.3(g) states that the DSR Methodology must minimise distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market. NGG updated its DSR methodology following feedback from industry to specify that it will notify the relevant Gas Distribution Network (GDN) when DSR is executed in respect of a site that is connected to their GDN. This enables the relevant GDN to better plan its offtake rates and ensure compliance with rules associated with any coincident restrictions to system flexibility that may be in place on that day, thus minimising the potential for distortions and unintended consequences.

Special condition 9.22.3(h) states that the DSR Methodology must ensure that DSR is procured in a manner consistent with NGG’s duties under the Gas Act 1986 and, in particular, the licensee’s obligation to operate the pipeline system to which this licence relates in an efficient, economic, and co-ordinated manner. NGG consider the changes to the DSR methodology further contribute towards the running of an “efficient, economic and co-ordinated” pipeline system as they will increase potential DSR volumes made available to National Grid by allowing Non-Trading System Transactions to be utilised. This may help mitigate the risks associated with entering into a Gas Deficit Emergency (GDE) and the potential inefficiencies in network operation which would follow.

### **Consultation responses**

NGG received one consultation response. The respondent was supportive of the proposed changes to the DSR methodology, but noted there was no provision to notify the relevant GDN of accepted and exercised DSR Offers, particularly from Shippers with an end user that is connected to their network. They state this could impact the Offtake Profile Notice and the effectiveness of Firm Load Shedding on the distribution network.

NGG agreed that where DSR is executed in respect of a site which is connected to a GDN (whether or not linked to a DSR option), it will endeavour to notify the relevant GDN of the site in question and the quantity of DSR accepted. NGG states that this is consistent with existing operational arrangements, and it has therefore included this provision within the DSR Methodology. See this argument above for Special Condition 9.22.3(g).

Furthermore, NGG stated there could also be merit in informing relevant GDNs of sites within their networks whose shippers have had DSR options accepted. NGG will not do this in respect of the present DSR option invitation but will consider specifying this going forward. If it is deemed necessary, to reflect a further notification to the GDNs, NG will consider including this in their next DSR methodology revision.

Additionally, there were seven responses to the UNC833 consultation where five supported implementation and two provided comments.<sup>5</sup>

## **Our view**

We agree that the proposed changes to the DSR Methodology will better facilitate the DSR principles set out in Special Conditions 9.22.3(e), (g) and (h).

- Special Condition 9.22.3(e): We agree that the introduction of DSR Market Offers through Non-Trading System Transactions will allow more users to participate in DSR and will give NGG access to additional DSR volumes, which would not have been available otherwise. It also allows users and National grid to have further visibility of DSR offers, which will further promote and facilitate parties making DSR offers to the licensee through open and transparent market arrangements.
- Special Condition 9.22.3(g): We agree that including the provision to require NGG to notify GDNs when DSR has been executed on a site connected to the GDN will help to minimise distortions and unintended consequences on existing market arrangements. Greater communication between NGG and the distribution network operators in such a situation should contribute towards the running of an “efficient, economic and co-ordinated” pipeline system.
- Special condition 9.22.3(h): We agree that the changes specified are designed to increase potential DSR volumes available. As DSR is a pre-emergency tool, designed to be used in times of system stress, we consider that the changes specified may

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<sup>5</sup> UNC833 consultation responses are available on the website of the Joint Office of Gas Transporters: <https://www.gasgovernance.co.uk/0833>. These responses have been fully considered and further detail can be found in our UNC833 decision document published on our website on 8 December 2022.

reduce the likelihood of entering into a National Gas Supply Emergency (NGSE) or Gas Deficit Emergency (GDE). This furthers the efficient, economic, and co-ordinated operation of the pipeline system as a NGSE would cause significant inefficiencies and disruption in the operation of the network.

Additionally, we consider the changes to the DSR Methodology to be consistent with the UNC833 Modification proposal. Our decision on UNC833 has also been published on our website on 8 December 2022.

### **Our Decision and next steps**

Pursuant to Special Condition 9.22.7, we have reviewed the proposed amendments submitted on 5 December 2022 and hereby consent to NGG making the changes to the Gas DSR Methodology.

This letter constitutes notice for the purpose of section 38A of the Gas Act 1986 of the Authority's reasons for its decision, and a copy has been made available on our website.

**Maryam Khan**

**Head of GSO Regulation**

For and on behalf of the Gas and Electricity Markets Authority