



Gas Demand Side Response Methodology

Consultation Report

December 2022

nationalgrid

Gas Demand Side Response Methodology Consultation Report

This report contains the outcome of National Grid's recent consultation undertaken in respect of the Gas Demand Side Response (DSR) Methodology. This report and the preceding consultation have been prepared in accordance with Special Condition 9.22 of our Gas Transporter Licence.

Background

The Gas DSR Methodology sets out the details of the DSR products. DSR provides an additional 'route to market' through which gas consumers can offer to turn down their consumption of gas at times of gas supply shortage in return for a payment. On 21st September 2015, the Authority directed National Grid NTS to implement the DSR Methodology effective from 1st October 2016.

Special Condition 9.22 requires National Grid to review the DSR Methodology in consultation with the industry at least once in every period of two Regulatory Years. The last review was completed in September 2022, with the consultation report being submitted to Ofgem in October of that year following the reforms introduced from UNC Modification 0822.

The present review was initiated to align the DSR Methodology with reforms proposed by UNC Modification 0833 "Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions" ([Modification 0833 V1.0 0.pdf \(gasgovernance.co.uk\)](#)). On 1st December 2022, Ofgem granted urgent status for this Modification with a shortened consultation period and also, separately, granted National Grid a derogation from Special Condition paragraph 9.22.5 for an equivalent reduced period for this DSR Methodology consultation to enable both to progress concurrently. Both consultations closed at 17:00 on 2nd December 2022.

Views Received

National Grid received one response to this Gas DSR Methodology Consultation which supported the proposed changes and also provided comments on the omission of a provision which allows a notification of accepted and exercised DSR Offers to be provided to the relevant Gas Distribution Network (GDN).

This respondent considered that there are two potential downstream impacts of not informing the GDN of potential flow curtailment:

1. **Offtake Profile Notice (OPN):** End users may opt in and then ramp down on the day, resulting in a reduction in demand on a specific part of the network. Whilst this may result in a positive outcome for National Grid, there is the potential for the GDN to be non-compliant with the Uniform Network Code (UNC). Given a Gas Balancing Notification (GBN) would have been issued, it is also likely a System Flexibility Restriction Notice (SFRN) would be in place and therefore, all rules would be 'on'. As such, any GDN flowing to a profile outside of OPN tolerance limits could be considered non-compliant;

2. Firm Load Shedding (FLS): The effectiveness of the FLS process could be hampered by GDNs contacting some end users unnecessarily (as in those that would curtail demand anyway due to DSR commitments), and others not at all i.e. those towards the end of the list of potential sites to contact in the event a Gas Deficit Emergency (GDE) was called.

The respondent believes that addressing the two areas above may result in a more effective whole system outcome and encouraged National Grid to include these points in the Methodology.

National Grid Views

Special Condition 9.22.6 requires this consultation report to contain a statement of any proposed revisions to the DSR Methodology that the licensee (having regard to the outcome of the review) reasonably considers would better achieve the DSR principles that are contained in paragraph 9.22.3 of the NTS Licence.

The proposed revisions to the Methodology are submitted as a separate document with this consultation report and are designed to reflect the reforms to the DSR regime contained in UNC Modification 0833, which seek to enable National Grid to allow Non-Trading System Transactions (i.e. as Over The Counter (OTC)) to be submitted by parties who are not subscribed to the OCM for DSR purposes.

We also agree with the consultation respondent that where a DSR trade is executed in respect of a site which is connected to a GDN (whether or not linked to a DSR option), we should endeavour to notify the relevant GDN of the site in question and the quantity of DSR accepted. This is consistent with existing operational arrangements and we are therefore content to include this provision within the DSR Methodology. There could also be merit in informing relevant GDNs of sites within their networks whose shippers have had DSR options accepted however we have not stated that we would do this in respect of the present DSR option invitation. We will consider specifying this in future invitations for DSR options and if so make an amendment to the DSR methodology at the next available opportunity.

In our view, these proposed revisions to the DSR Methodology better facilitate the following DSR principles:

“(e) promotes and further facilitates parties making Demand Side Response Offers to the licensee through open and transparent market-based arrangements”

We believe that the proposals put forwards as part of UNC0833 further facilitate this key principle of the Licence and is a central objective of the Modification. We have heard from stakeholders that a potential barrier for participation is the requirement for the Shipper to place Offers onto the OCM due to the organisational structure of their business. Our engagements identified that some parties are set up with separate “Retail” and “Trading” organisations where the Trading organisation are the only party who have the capability, resource and access to participate in OCM activities. The Retail organisation who

have the contract with the User and will offer the demand reduction are the party who need to submit the Offer on the OCM as per the Business Rules implemented as part of UNC0822 but do not have access to do so. Therefore, by permitting Non-Trading System Transactions (i.e. as 'over-the-counter' trades) for DSR purposes could allow us to gain access to additional DSR volumes which would not have been available otherwise.

Additionally, by updating the Voluntary DSR Period to allow both Users and National Grid to have visibility of Offers following the issue of a Margins Notice it further supports the Licence objective by facilitating an increased lead time for demand reduction, thus potentially increasing the number of Users who can participate in DSR.

“(h) ensures that Demand Side Response is procured in a manner consistent with the licensee’s duties under the Act 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”

We believe the reforms outlined in UNC0833 further contribute towards the running of an “efficient, economic and co-ordinated” pipeline system as the changes are designed to increase potential DSR volumes made available to National Grid. Therefore, by allowing Non-Trading System Transactions to be utilised following the issuing of a Margins Notice and / or GBN and gaining access to the additional volumes which are not available on the OCM, it may help mitigate the risks associated with entering into a GDE and the potential inefficiencies in network operation which would follow.

“(g) minimises distortions and unintended consequences on existing market arrangements and the principle of parties balancing their own positions in the wholesale gas market”

Notification by NGG to the relevant GDN of any accepted DSR trades enables that 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.

Next Steps

National Grid proposes to amend the DSR Methodology in line with the marked-up version that accompanies this consultation report, subject to the direction of the Authority pursuant to paragraph 9.22.7 of the NTS Licence. This consultation report will be published on the National Grid website at <https://www.nationalgridgas.com/balancing/demand-side-response-dsr>

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