

Modification proposal:	<b>Uniform Network Code (“UNC”) 0852 (hereafter “UNC0852”): Shipper notification in relation to option exercise for Customer Demand Side Response.</b>
Decision:	The Authority <sup>1</sup> has decided to reject this modification <sup>2</sup>
Target audience:	UNC Panel, Parties to the UNC and other interested parties
Date of publication:	29 April 2024
Implementation date:	n/a

## Background

Gas Demand Side Response (“DSR”) is where consumers offer to voluntarily reduce their gas demand in return for financial compensation, and it is intended to reduce the likelihood, severity and duration of a potential Network Gas Supply Emergency (“NGSE”). Gas DSR arrangements were introduced into the UNC in 2016.<sup>3</sup> National Gas Transmission (“NGT”) has a licence obligation to maintain a DSR Methodology for assessing and accepting DSR offers.<sup>4</sup> Each year NGT issues an invitation to all Users to offer DSR quantities (known as “DSR Options offers”).<sup>5</sup>

Since 2018, enhancements to DSR arrangements have been made through several UNC code modifications, including UNC0844: Enabling Direct Contractual Arrangements with Consumers

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

<sup>3</sup> UNC0504 Decision Letter: <https://www.ofgem.gov.uk/publications/uniform-network-code-unc-504-demand-side-response-dsr-methodology-implementation>

<sup>4</sup> Special Condition 9.22 of NGT’s Gas Transporter Licence: <https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

<sup>5</sup> For the purposes of these Rules, references to a User includes a Relevant Shipper: <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2022-11/20%20Modification%20Rules.pdf>

for Demand Side Response (hereafter “UNC0844”). UNC0844 introduced arrangements to allow NGT to directly contract with Class 1 consumers who want to make a DSR Options offer.<sup>6</sup> During workgroup discussions for UNC0844, concerns were raised by some workgroup participants and a Non-Domestic Consumer Representative about the proposed modification not including a requirement for NGT to notify relevant shippers of Class 1 consumers when consumer DSR Options offers are exercised. Shippers raised concerns regarding the risk of consumers participating in DSR failing to notify them in a timely manner of their DSR Options offer being exercised. Their concern was that this may cause shippers to subsequently face commercial and financial risks from imbalance and scheduling charges. They noted that UNC0844 included the requirement for NGT to notify relevant Distribution Network Operators (“DNOs”) and they disagreed with it being left to the responsibility of Class 1 consumers to notify their shipper. In our decision to approve UNC0844 we acknowledged these shipper concerns and suggested keeping these arrangements under review until there is clear evidence to suggest that alternative arrangements would be more efficient.

### **The modification proposal**

On 07 July 2023, SEFE Energy (“the Proposer”) raised UNC modification UNC0852 ‘Shipper notification in relation to option exercise for Customer Demand Side Response’.<sup>7</sup> UNC0852 seeks to modify the UNC to require NGT to notify relevant shippers when consumer DSR Options offers are exercised.<sup>8</sup> The modification does not specify the method of communication NGT must use in notifying the shippers. The Proposer states that they expect the number of DSR contracts to remain low (based on a Rough Order of Magnitude assessment with a maximum of 30 consumers). The Proposer is of the view that given the modest size of the DSR market, suitable resources could be brought in by NGT to ensure shippers are notified. They state that this modification will ensure greater financial security for shippers by reducing their risk of incurring imbalance charges if the consumer does not notify the shipper in time.

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<sup>6</sup> UNC0844 Decision: <https://www.ofgem.gov.uk/sites/default/files/2023-08/UNC%20844%20Decision%20Letter.pdf>. Class 1 consumers are those that are daily metered with an annual quantity of greater than 2 million therms.

<sup>7</sup> UNC0852: <https://www.gasgovernance.co.uk/0852>

<sup>8</sup> Legal text can be found in the FMR for UNC0852: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2024-03/Final%20Modification%20Report%200852%20v2.0%20%28Representations%20appended%20%29.pdf>

On 17 August 2023, the UNC Code Administrator (The Joint Office of Gas Transporters – hereafter “the Joint Office”) notified the Authority that UNC0852 was considered by the UNC Modification Panel (“the Panel”) to be a non-material change and therefore subject to Self-Governance.<sup>9</sup> Nine Panel members voted in favour of Self-Governance and five Panel members were not in favour. During the Panel meeting on 17 August 2023, the Ofgem representative expressed Ofgem’s view that this modification should be subject to Authority Direction.

NGT submitted an initial representation on 03 October 2023,<sup>10</sup> where they stated that UNC0852 could have a material effect as there is potential for the DSR market to grow in the future. This could increase the number of notifications that NGT must send to shippers and could compromise NGT’s ability to manage a NGSE, creating a potential material impact and as such, UNC0852 should be subject to Authority Direction.

We sent a letter to the Joint Office on 14 December 2023 rejecting the Self-Governance statement and directing the modification should come to the Authority for decision.<sup>11</sup> We were of the view that UNC0852 may have a material effect on security of supply as it is placing an additional obligation on NGT to notify shippers, which may interact with NGT’s role as the Network Emergency Coordinator.

At the UNC Panel meeting on 18 January 2024, a question was added by Ofgem as part of the consultation process.<sup>12</sup> This question requested information on Business As Usual (“BAU”) communications between consumers and suppliers/shippers during unexpected reductions in gas demand, and their appropriateness for DSR purposes.

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<sup>9</sup> UNC Panel 17 August 2023 meeting minutes: <https://www.gasgovernance.co.uk/sites/default/files/ggf/2023-08/Panel%20Minutes%20310%2017%20August%202023%20v1.0.pdf>

<sup>10</sup> NGT’s initial representation for UNC0852S: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/Mod%200852%20-%20NGT%20Initial%20Representation%20%28Late%20Submission%2003%20October%202023%29.pdf>

<sup>11</sup> Ofgem’s rejection letter for Self-Governance status: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-12/UNC0852S%20Ofgem%20letter%20rejecting%20Self-Governance%20Statement%20December%202023.pdf>

<sup>12</sup> UNC Panel meeting minutes 18 January 2024: <https://www.gasgovernance.co.uk/sites/default/files/ggf/2024-01/Panel%20Minutes%20316%2018%20January%202024.pdf>

## UNC Panel<sup>13</sup> recommendation

At the UNC Panel meeting on 21 March 2024, a majority of the Panel considered that UNC0852 would better facilitate the UNC Relevant Objectives.<sup>14</sup> The Panel therefore recommended its approval, with 13 Panel members voting in favour of implementation and one member not voting in favour. Both the Domestic consumer voting member and the Non-Domestic consumer voting member voted in favour of implementation.

The Panel agreed that the modification would better facilitate UNC Relevant Objective (d), with some additional discussion on Relevant Objective (a).

## Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report ("FMR") dated 22 March 2024.<sup>15</sup> We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>16</sup> We have concluded that:

- implementation of the modification proposal will not better facilitate the achievement of the Relevant Objectives of the UNC.<sup>17</sup>

## Reasons for our decision

We consider this modification proposal will not better facilitate UNC Relevant Objective (a) and has no impact on the other Relevant Objectives, including Relevant Objective (d).

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<sup>13</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>14</sup> UNC Panel Meeting 21 March 2024 Minutes: <https://www.gasgovernance.co.uk/sites/default/files/ggf/2024-04/Panel%20Minutes%20318%2021March24%20v2.0.pdf>

<sup>15</sup> UNC0852 FMR: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2024-03/Final%20Modification%20Report%200852%20v2.0%20%28Representations%20appended%20%29.pdf>

<sup>16</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>17</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>.

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

Whilst the Proposer did not give views on Relevant Objective (a), some Panel members and one consultation respondent did refer to this objective. Some Panel members were of the view that this modification has a positive effect on Relevant Objective (a) as notifications from NGT would allow shippers to make more accurate volume nominations, which can facilitate economic and efficient operations.

One Panel member and one consultation respondent were of the view that Relevant Objective (a) would be negatively affected, since the modification proposes giving NGT a new administrative function to provide information that should already be provided under established contractual arrangements between consumers and suppliers/shippers. They believed that consumers should already be notifying their suppliers/shippers when they need to unexpectedly reduce their gas consumption, which includes the exercise of DSR Options offers. The consultation respondent (who would be given this additional role) stated that the introduction of direct contracting has already seen them take on an additional role that has traditionally been between the consumer and the supplier/shipper, and the respondent said that it is not appropriate for NGT to step further into the shipper role as this modification proposes.

The respondent further stated that NGT already contacts shippers with information on which of their consumers have DSR Options offers that have been accepted and notifies shippers when the DSR market opens through NGT's Active Notification System. The respondent therefore considered this to provide shippers with enough information to engage with their consumers to determine if their DSR Option has been exercised.

Consultation respondents confirmed that BAU communication arrangements do currently exist between consumers and suppliers/shippers when consumers face unexpected shutdowns and need to reduce their gas consumption at short notice. However, several shippers stated that current arrangements are not robust, highlighting that communications can be delayed or unreliable in practice, for example where suppliers are a different entity to the shipper and they may not have 24-hour operations. In Panel discussions, several Panel members

highlighted shippers' preference for NGT to send notifications instead of relying on existing arrangements.

We have carefully considered the views of the Proposer, consultation respondents, and Panel members. We acknowledge the importance of accurate shipper nominations. On balance, however, we are of the view that this modification would give NGT a new function that should already be covered by existing communication arrangements between consumers and suppliers/shippers. This modification would replicate existing communication arrangements between consumers and suppliers/shippers, extending them to the system operator when utilising DSR. We are of the view that this is not an economic and efficient use of resources to operate the pipe-line system.

Furthermore, we consider that the exercising of a DSR Options offer is not dissimilar to a consumer's unplanned maintenance event and recognise that communication related to this would occur directly between a consumer and their supplier/shipper. We therefore encourage parties to ensure their current contractual arrangements and communication methods are robust.

We also agree with the point made by a consultation respondent that, since shippers are already notified of which of their consumers hold accepted DSR Options offers and they know when the DSR market opens, they will already have information that can help them to adequately engage with their consumers and plan for consumers reducing their consumption when their DSR Options offers are exercised. We agree that this provides further security to shippers, beyond the BAU arrangements discussed above.

We note issues highlighted by shippers regarding their current communications with suppliers and consumers. However, we have not received sufficient evidence in the FMR that effective BAU communication arrangements between consumers and suppliers/shippers, plus the information provided by NGT on accepted DSR Options offers cannot deliver the required information between relevant parties. Therefore, we do not consider it appropriate for NGT's control room to take on this additional role. We consider it appropriate for NGT to focus on its primary role in this circumstance to prevent or limit the extent of an NGSE. We will consider new information in the future if it becomes available.

We note the point made by one consultation respondent who stated that NGT's control room should already be well-resourced under BAU operations to take on this proposed additional role. We acknowledge that NGT is responsible for reviewing control room resourcing and workloads. However, as noted above, we do not have sufficient evidence that this additional communication role is an appropriate task for NGT to take on during a potential NGSE.

Overall, on the basis of the considerations outlined above, we consider that this modification would have a negative impact on Relevant Objective (a).

***(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***

The Proposer considers that this modification will have a positive impact on Relevant Objective (d). They state that if NGT notifies relevant shippers when consumer DSR Options offers are being exercised, this will increase the level of security for shippers, suppliers and consumers. This view was shared by some Panel members. Five consultation respondents also agreed that there is a risk of shippers not being notified in a timely manner of DSR Options offers being exercised by consumers or suppliers. They argued that this may expose the shipper to imbalance and scheduling charges if they do not balance their gas portfolios in time, making DSR less attractive for shippers and for consumers who may have these charges passed onto them. This issue may be exacerbated if shippers have to deal with several suppliers, increasing the risk of missed communications.

The Proposer and one consultation respondent raised the point that NGT already contacts relevant DNOs when consumer DSR Options offers are exercised and recommended that notifications should also be extended to shippers. Three consultation respondents are of the view that there would be little cost to NGT for processing and issuing notifications to shippers.

One consultation respondent stated that this modification would have a negative impact on Relevant Objective (d). The respondent stated that if the DSR market grows over time, then

the number of DSR Option offers could become significant and the obligation to notify shippers could become burdensome. They stated that there is a potential risk that timely notifications cannot be provided to all shippers resulting in some shippers receiving notification from NGT and not others, giving some shippers a commercial advantage over others. The respondent also noted that a consumer may change its shipper at any time and NGT may not be aware of this, meaning that NGT would need to put additional processes in place via the Central Data Service Provider to ensure they had the latest information available.

We acknowledge the concerns raised by the Proposer and the majority of consultation respondents regarding the risks of shippers not receiving timely communications from consumers or suppliers. We also note the risk highlighted by respondents where shippers may deal with several suppliers, which complicates the communication chain. However, we also acknowledge that NGT may not be aware of any consumer/shipper arrangement changes between the acceptance of a DSR Options offer and the exercise of DSR without a new process being put in place. On balance, we consider that existing BAU communications between consumers and suppliers/shippers should be utilised here, alongside the information NGT provides at the stage where DSR offers are accepted. Furthermore, we are of the view that the points raised regarding increased shipper security do not impact Relevant Objective (d). We do not see an adequate link between increasing security for shippers and how this would secure more effective competition between shippers.

Therefore, we are of the view that this modification would have no impact on Relevant Objective (d).

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal UNC0852: "Shipper notification in relation to option exercise for Customer Demand Side Response" should not be made.

### **Helen Seaton**

#### **Head of Gas Security and Flexibility**

Signed on behalf of the Authority and authorised for that purpose