

| UNC Final Modification Report                                                                                                                                                                                                                                                                                                      | At what stage is this document in the process?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <h1>UNC 0856:</h1> <h2>Introduction of Trials for Non-Daily Metered (NDM) Demand Side Response (DSR)</h2>                                                                                                                                                                                                                          | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div> |
| <p><b>Purpose of Modification:</b></p> <p>Create a framework to enable National Gas Transmission (NGT) to run time-limited trials for NDM DSR with the aim of gathering data, contributing towards NGT’s longer-term thinking, allow risks to be better understood and potentially increase the pre-emergency tools available.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>Next Steps:</b></p> <p>The Panel does not recommend implementation.</p>                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>Impacted Parties:</b></p> <p>High: NGT, Shippers, Consumers, Distribution Networks, IGTs</p> <p>Low:</p> <p>None:</p>                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>Impacted Codes:</b> UNC and potentially IGT UNC</p>                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

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| Timetable                                           |                                |                                    |                                                                                                                                                                            |
| <b>Modification timetable:</b>                      |                                |                                    |                                                                                                                                                                            |
| Pre-Modification Discussed                          |                                | 03 August 2023 & 07 September 2023 |                                                                                                                                                                            |
| Date Modification Raised                            |                                | 08 September 2023                  |                                                                                                                                                                            |
| New Modification to be considered by Panel          |                                | 21 September 2023                  |                                                                                                                                                                            |
| First Workgroup Meeting                             |                                | 05 October 2023                    |                                                                                                                                                                            |
| Workgroup Report to be presented to Panel           |                                | 16 November 2023                   |                                                                                                                                                                            |
| Draft Modification Report issued for consultation   |                                | 16 November 2023                   |                                                                                                                                                                            |
| Consultation Close-out for representations          |                                | 04 December 2023                   |                                                                                                                                                                            |
| Final Modification Report available for Panel       |                                | 05 December 2023                   |                                                                                                                                                                            |
| Modification Panel recommendation (at short notice) |                                | 14 December 2023                   |                                                                                                                                                                            |

## 1 Summary

### What

National Gas Transmission (NGT) proposes to introduce a new provision within the Uniform Network Code (UNC) which permits the use of Trials for NDM DSR to explore factors associated to the development of an NDM DSR tool. The Trial(s) will be delivered through provisions already set out in System Management Principles Statement (SMPS) and Procurement Guidelines. The development and use of such Trial(s) may lead to enduring developments that can provide additional resilience and supplement Great Britain's (GB) energy security.

A Trial(s) would facilitate learning and data gathering which aids NGT's longer-term thinking on the effectiveness of a potential commercial tool which supports our wider resilience mechanisms and helps us to better understand the risks of such a tool and identify potential mitigations. Additionally, by exploring this topic via a Trial(s) it provides a more efficient route when compared to developing a solution which is implemented into the UNC when the impacts may not be fully understood and as such may require unwinding from the UNC if it does not work as originally intended.

NGT propose that the NDM DSR Trial(s) should be funded via Energy Balancing Neutrality where the costs associated with balancing the network are socialised across the Shipper community. NGT consider that this is an appropriate approach because DSR is a tool that is used to help address a national energy imbalance.

### Why

In March 2023, the Department for Energy Security and Net Zero (DESNZ) published their 'Powering Up Britain - Energy Security Plan'<sup>1</sup> which states:

*"The Government is working with NGT to increase the available volumes for industrial demand reduction for winter 2023-24 and investigate options for how domestic and smaller business gas consumers could participate more in future schemes".*

This Modification seeks to establish the necessary framework to help deliver this Government ambition.

NGT has progressed several DSR reforms in 2022/23 and plans to continue to develop DSR tools with the aim of increasing both participation and the volume from the Daily Metered (DM) demand that can be accessed in the event of supply tightness.

NGT has continued engagement with DESNZ and Ofgem to explore how domestic and smaller industrial and commercial gas consumers could participate in the DSR market. NGT considers the use of a Trial(s) to explore potential sources of NDM demand reduction to be an appropriate route before any enduring solution is developed due to the potential risks of offering a process whereby NDM consumers can reduce their gas demand in return for a payment (for example in relation to impacts on vulnerable consumers). The learnings from a Trial(s) will then be reviewed and utilised to further develop industry thinking in relation to how an enduring product could work and be implemented.

NGT recognise that further enhancements to pre-emergency tools would be welcome which have the potential to further enhance Winter resilience.

For the avoidance of doubt, the scope of this Modification is limited to Trial(s) for NDM DSR.

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<sup>1</sup> [Powering Up Britain: Energy Security Plan \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/118111/powering-up-britain-energy-security-plan.pdf)

**How**

**UNC:**

To deliver the proposed solution, NGT proposes to make the following changes:

NGT propose to introduce a new term into UNC TPD Section D and utilise existing provisions within the SMPS<sup>2</sup> to enact NDM DSR Trial(s). In order to run an NDM DSR Trial(s), NGT would be required to publish a Specification Document outlining the proposal and the details of the limited NDM DSR Trial(s).

The specification document would be subject to consultation and would require Ofgem determination to confirm its approval, or rejection

NGT would only be able to proceed with the NDM DSR Trial(s) in the form consulted upon following approval from Ofgem.

**SMPS:**

Section D of the SMPS provides an overview of the specific services for system management which are documented in the table below. NGT considers that existing tools, services and provisions set out within the System Management Services (SMS), as set out as Specific Services in the SMPS, provide an appropriate mechanism for running NDM DSR Trial(s) to explore innovative enhancements and gain data from real life market scenarios.

| <b>Specific Services for System Management include</b> | <b>Description</b>                                                                                                                                                                                             |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy Tools                                           | NGT may use the ICE Endex operated On-the-day Commodity Market (OCM), or any other market mechanism or contract to buy and sell gas for the purposes of system management.                                     |
| Capacity Tools                                         | NGT may use the Gemini / Gemini exit system, or any other market, mechanism or contract to buy and sell system NTS Entry or Exit Capacity for the purposes of system management.                               |
| Storage Services                                       | NGT may procure any storage service from storage facility users, or any other market, mechanism or contract relating to physical or commercially based storage products for the purposes of system management. |
| Demand and Supply Management Services                  | NGT may incentivise Users or end consumers to enter into contracts to affect desired gas flow offtake or delivery into the system.                                                                             |
| Other Commercial and Contractual Services              | NGT may develop further services or enter into contracts that will enable it to better manage its operational and commercial risks.                                                                            |

<sup>2</sup> <https://www.nationalgas.com/document/140971/download>

## 2 Governance

### Authority Direction

NGT believes that this Modification requires Authority Direction for the following reasons:

- The introduction of an NDM Trial(s) within the regulatory framework constitutes a material change to the arrangements in which we are operating and would be expected to result in additional costs to the Shipper community due to the proposal stating that Trial(s) will be funded via the Energy Balancing Neutrality mechanism.

### Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

In order to deliver an NDM Trial(s) for Winter 2023/24 and thus meeting the expectations set out in the Powering Up Britain – Energy Security Plan in regards to investigating options for how domestic and smaller gas consumers are able to participate in future DSR schemes and engage adequately with the industry, NGT request that additional workgroups are facilitated by the Joint Office in October, week commencing 16/10/23, and potentially a contingency workgroup during the week commencing 06/11/23 where the workgroup report can be finalised. These workgroups are requested for the industry to provide feedback and help develop the solution, whilst being able to complete and return the Workgroup Report back to the UNC Panel on 16/11/23.

### Workgroup's Assessment

All Workgroup Participants agreed that this Modification should be subject to Authority Direction.

## 3 Why Change?

### Driver for change

The Gas Demand Side Response (DSR) arrangements were introduced into the UNC in 2016 by [Modification 0504](#) 'Demand Side Response Methodology Implementation'. They provide a mechanism for large consumers of gas to offer to reduce their gas demand in return for a payment which they define during times of system stress when a Gas Balancing Notification (GBN) is in operation.

Subsequent UNC reforms [Modification 0822](#) (Urgent) (Reform of Gas Demand Side Response Arrangements) and [Modification 0833](#) (Urgent) Enabling Demand Side Response (DSR) Market Offers to be made by Non-Trading System Transactions have been implemented which aim to further increase both participation and the financial incentives for large Daily Metered Consumers to participate. In August 2023 two further UNC [Modifications 0844](#) (Enabling Direct Contractual Arrangements with Consumers for Demand Side Response) and [0845](#) (Enhancements to Demand Side Response (DSR) Arrangements including a D-5 Product) were approved by Ofgem which aim to further increase both participation and the DSR volume which NGT can then procure in advance of the Winter from large Daily Metered Consumers.

To date, all DSR reforms and Modifications have been focused on increasing participation from the Daily Metered community and NGT remains focused on growing this market. However, NGT recognises that NDM consumers could also play a key role in delivering gas demand reduction in the event of forecast system stress and thus further enhance DSR as a pre-emergency tool.

In March 2023, DESNZ published the Government's 'Powering Up Britain – Energy Security Plan' which stated an intention to work with NGT to continue developing DSR markets and "investigate options for how domestic and smaller business gas consumers could participate more in future schemes". Therefore NGT wishes to explore with the industry how these sections of the market could participate and reduce their demand as part of a commercial, pre-emergency tool.

NGT has engaged with some industry stakeholders to seek views regarding the introduction of an NDM reduction scheme. These discussions yielded consistent feedback that a central financial stimulus would be key to encouraging engagement from NDM consumers and that a direct contracting or balancing service arrangement would be the most favourable medium to use in order to facilitate an NDM reduction from a provider who has NDM consumers within their portfolio.

In order to explore and develop thinking further regarding how an NDM DSR product could work, NGT would like to conduct Trial(s), enabled by a framework change within the UNC. The principle features of the Trial(s) would be the ability to gather data, better understand risks and contribute towards longer term thinking on whether the findings from the Trial(s) would be suitable for enduring industry reform.

### **Benefits**

By introducing the concept of NDM DSR Trial(s) into UNC this would create additional flexibility for NGT to innovate and trial NDM DSR solutions before developing full-scale products which can take a significant amount of industry time and may not be utilised as much as originally planned. If these were tested through time-limited Trial(s) it presents an opportunity to test key principles of such enhancements to one of our potential pre-emergency tools and gather data which may either support or disprove a hypothesis. Furthermore, if successful, the findings from the NDM DSR Trials will then directly feed into the development and enhancement of NGT's existing suite of pre-emergency DSR tools which could benefit NGT, Shippers, wider market participants, consumers and the whole country because they would help mitigate the risk of a Gas Deficit Emergency (GDE). Such trials would provide information for the industry to better understand and assess any such proposals and the operation of these proposals.

If this Modification is approved, NGT would look to run NDM DSR Trials during Winter 2023/24 which would provide valuable information and an opportunity to gather data on the level of interest, utilisation and the price point required to encourage consumers to reduce consumption. As stated earlier in this Modification, NGT is looking to explore options to encourage participation from domestic and smaller industrial and commercial consumers. We recognise that requesting a demand reduction from this section of the market carries unique risks which need to be carefully considered and navigated, especially when considering the interaction with domestic demand and vulnerable consumers. This is another important factor for wishing to explore this topic via time-limited Trials which would allow NGT to better understand these potential risks and to identify potential mitigating factors before considering an enduring product or solution. As stated above the trials would also provide the same information and data for the industry as a whole to consider.

### **Impacted parties**

If this Modification is implemented, NGT foresees that the impacted parties include:

- NGT – through the new process and contractual arrangement
- NDM Consumers (Domestic and Non-Domestic) – through their interaction with the Trial
- Shippers – through a contractual relationship with Suppliers and Energy Balancing Neutrality costs
- Suppliers – Through a contractual relationship with the Shipper and NDM Consumers

- Gas Distribution Networks and Independent Gas Transporters – If the consumers who are participating in the Trial(s) are in their network, it could potentially impact their demand forecasting accuracy.

### Why is this a Code matter

The current UNC text / SMPS are very prescriptive regarding the tools and processes that NGT can undertake. By introducing a framework where NDM DSR Trials can be enacted it would permit a greater level of flexibility which NGT believe would result in innovation and more effective products being developed and deployed into the market.

NGT is proposing to amend UNC TPD Section D to permit the use of NDM DSR Trials subject to the publication of and public consultation on a specification document which Ofgem would be required to approve or reject following the closure of the consultation .

### What are the effects if this change is not made?

If this Modification is not implemented NGT would be unlikely to be able to run an NDM DSR Trial in Winter 2023/24 and thus be unable to explore the potential value of NDM DSR and it would result in not meeting the aspirations outlined in DESNZ's Powering Up Britain – Energy Security Plan. Additionally, this may prevent future NDM DSR reforms from being delivered as effectively as possible because there would not be an opportunity to Trial the key principles in a realistic scenario prior to such a proposal being developed and potentially implemented. Therefore, this may inhibit NGT from acting as efficiently as possible because there may be a requirement to implement UNC changes which subsequently require reforms to take into account real-life learnings or developments which could have been obtained via the use of NDM DSR Trials.

## 4 Code Specific Matters

### Reference Documents

System Management Principles Statement (SMPS) - [A4 simple report 1-col no divider Nov 2019 \(nationalgas.com\)](https://nationalgas.com)

### Knowledge/Skills

None

## 5 Solution

If approved, this Modification will amend the UNC TPD section D to introduce a framework which enables NGT to run NDM DSR Trials for the purposes of gathering data, contributing to longer-term thinking and helping to better understand risks and have the trial funded by the Energy Balancing Neutrality mechanism.

If NGT wishes to run an NDM Trial, NGT will have to document and explain the following in a specification document:

### Trial Scope:

- The aims, objectives and success criteria of running the NDM DSR trial. The core objectives are to:
  - Facilitate learning to assess the feasibility of an enduring NDM DSR product for the gas industry including minimising impact on vulnerable consumers
  - Better understand potential impacts on the wider energy system

- Make recommendations for feasible products as a result of learning from the NDM DSR trial(s)
- Specify the eligibility requirements for being able to participate in the NDM Trials for the Service Provider
- Document Payment Terms between NGT and service providers
- Outline the contractual arrangements for the Service Provider which explains the roles, responsibilities and any liabilities which arise as a result of participating in the NDM DSR trials
- Estimated cost of the Trial / maximum spend or exposure for the Shipper community per NDM DSR trial.
  - In the event of NGT wishing to obtain additional funding for an NDM DSR trial, NGT will be required to engage with interested parties and Ofgem to describe the benefits of additional funding and why the original funding quantity was not adequate.
  - The specification document sets out the governance and process steps required
- Expected duration which cannot be longer than 12 months

### **Trial Assessment**

- NGT will be required to document the extent to which the NDM DSR trial will contribute towards the following factors:
  - Promoting the efficient and economic operation of the pipeline system
  - Coordinated, efficient and economic operation of
    - The combined pipe-line system and/or
    - The pipe-line system of one or more other relevant gas transporter
  - Does the trial contribute towards a better understanding of how consumers will interact with the NDM DSR product
  - A more comprehensive understanding of how an NDM DSR reduction tool would impact the whole energy system

### **Specification Document Consultation:**

- NGT shall be required to send the Specification Document to Ofgem prior to a public consultation which NGT will then initiate, the public consultation will run for 28 business days unless otherwise agreed with Ofgem
- Following the closure of the consultation period, Ofgem determination is requested to Approve or Reject the Specification Document which is specific to the Trial.

### **Payment:**

- Amounts (determined as provided in the Specification Document) payable to a Service Provider in connection with the NDM Trial are additional Monthly Adjustment Neutrality Costs or Adjustments
- The payments from Energy Balancing Neutrality to fund the Trial do not impact the the daily System Average Price (SAP) or the System Marginal Prices (SMP)

### **Reporting requirements:**

- Within 2 months after the end of the Trial, NGT have an obligation to publish a report documenting the results, findings, cost to the industry and an assessment against the success criteria and trial assessment factors that were published within the Specification Document

- NGT must also confirm if they intend to raise a Modification to implement the Trials concept on an enduring basis.

## 6 Impacts & Other Considerations

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

None.

No Workgroup Participants disagreed.

### Consumer Impacts

This Modification will allow NGT to further develop the Pre-Emergency DSR tools at its disposal. Therefore, it is likely to improve the overall effectiveness of these tools and further reduce the likelihood of a GDE which would entail significant cost and disruption to the industry and consumers, potentially requiring firm load shedding and the isolation of domestic consumers.

If this Modification is implemented and NDM DSR Trials are conducted it will introduce new incentives for NDM consumers who are participating in the trials to reduce their consumption for a limited period of time. In return for voluntarily reducing their consumption, they will receive a payment associated with the reduction. As a result of the reduction, consumers can also expect to receive lower gas bills for the period(s) where they have reduced their consumption when compared to others who have not participated in the Trials.

The learnings from the Trials will be considered and may feed into the potential development of an enduring, product and suite of pre-emergency DSR tools which would enable NGT to incentivise NDM consumers to reduce their consumption in times of a supply tightness.

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

Currently, there is no central product either enduring or on a trial basis which is aimed at NDM consumers which incentivises them to reduce their gas consumption in return for payment. The existing DSR arrangements are aimed at large industrial and commercial consumers and operate under an ‘option and exercise’ regime. Smaller consumers have been able to interact with National Grid ESO’s (ESO) Demand Flexibility Service (DFS) which encourages consumers to reduce or alter their electricity consumption over a short period of time in return for payment. Therefore, they are more familiar with a demand reduction product or trials than ever before.

| Impact of the change on Consumer Benefit Areas:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Area                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Identified impact |
| <p><b>Improved safety and reliability</b></p> <p>By permitting NGT to run Trials to develop ours the and industry’s understanding of the viability or appropriateness of a NDM DSR product, it has the potential to improve the safety and reliability of the network and improve resilience. Due to the nature of a Trial which is limited in scope, size and duration, it provides an opportunity to test and understand solutions in a more controlled environment which is likely to contribute towards the safety and reliability of the network.</p> | <p>Positive</p>   |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <p><b>Lower bills than would otherwise be the case</b></p> <p>If this Modification is implemented and the Specification Document is approved by Ofgem, NGT plans to run Trials for NDM DSR during winter 2023/24. During this Trial, consumers would be incentivised to reduce their consumption over specified periods of time. Due to consumers who are participating in the NDM DSR Trials, reducing their consumption more than they would have normally, they would generally receive lower gas bills. Additionally, they would receive payment for the reduction they have been able to deliver during the trials.</p> | <p>Positive</p> |
| <p><b>Reduced environmental damage</b></p> <p>None</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>None</p>     |
| <p><b>Improved quality of service</b></p> <p>Currently, there are no provisions which permit NGT to run NDM DSR Trials. If implemented, there would be greater opportunities to take onboard feedback for future enhancements which could in the first instance be utilised via Trials.</p> <p>If NDM DSR Trials are approved (subject to the Modification being implemented), it will provide some NDM consumers the opportunity to participate in the development of a solution which benefits GB and their own security of supply.</p>                                                                                    | <p>Positive</p> |
| <p><b>Benefits for society as a whole</b></p> <p>The learnings from the NDM DSR Trials will contribute towards longer-term thinking which is likely to feed into an enduring NDM DSR product which will enhance the overall GB security of supply by helping to mitigate the changes of a GDE. If a GDE occurred, it would likely have a severe economic and societal impact on the country.</p>                                                                                                                                                                                                                             | <p>Positive</p> |

### Workgroup Assessment

Following a minor change made by the Proposer to the wording above in the section ‘Lower bills than would otherwise be the case’, Workgroup Participants did not contradict any of the claims made by the Proposer.

### Cross-Code Impacts

A Workgroup Participant agreed to investigate whether there may be a requirement to produce a “mirror Modification” within the iGT UNC. The iGT Representative subsequently confirmed to the Proposer that the iGT UNC Section D points to the UNC and so no change in the iGT UNC would be needed.

### EU Code Impacts

None at this stage. However, if the trials lead to an enduring product being developed it may have interaction with the EU Balancing Code because it may be considered a Balancing Service.

### Central Systems Impacts

None.

It is not expected that there will be any central system impacts in order for NGT to run NDM DSR Trials. If there were to be a system change this would be captured within the specification document and would be subject to

consultation and an Ofgem decision. However, due to the time-limited nature of Trials, we do not anticipate there to be system change requirements for such Trials.

However, the Central Data Services Provider (CDSP) are likely to have process changes or additional processes in order to facilitate the payments to Shippers following the Consumer demand reduction.

## Workgroup Assessment

A Workgroup Representative for the CDSP provided the following note;

In terms of the introduction of allowing NDM DSR trials, for this principle, we would not expect any CDSP system changes. The concept of funding through Energy Balancing Neutrality, which Modification 0856 proposes for the trials, is existing functionality that the CDSP have a process for.

Considering a specific trial, the impact on CDSP systems and more likely processes would need to be assessed on a case-by-case basis. It is expected that at a minimum an NDM DSR trial would require CDSP support in terms of administering payments for entering DSR trials. The expectation is that payments will be made to Shippers rather than end consumers. Impacts on the CDSP will need to be assessed under the specific trial and this would need to include any other requirements as a result of the trial, in addition to administering payments, such as provision of data.

## Performance Assurance Considerations

Workgroup Participants have not identified any concerns and noted that the PAC has also considered this Modification.

## Initial Representations

None

## Panel Questions

An interim report for Panel was delivered on 19 October containing the following text;

Panel Question 1 - NGT outlined, and Workgroup Participants agreed that this Proposal would not sit within the scope of the Derogation mechanism because it seeks to introduce a new facility into the Code rather than suspend an existing obligation.

Panel Question 2 – Workgroup Participants identified that the criteria for assessing the success of a trial should include identifying whether a particular intervention results in demand reduction or demand transfer. Workgroup Participants agreed that this is a matter for inclusion in the Specification document rather than in the Modification itself although the Modification could set out some generic criteria which each Specification should include. NGT agreed to consider inserting items such as impact on other energy systems and impact on consumer welfare.

Panel Question 3 – Workgroup Participants agreed that the proposed timetable for development of the Proposal may be achieved (final Workgroup Report for November Panel) with a caveat that whilst the Proposal is a Facilitating Modification, the most important detail will need to be set out in the Specification of the trial and the terms and conditions of contract for any Service Providers engaged for the trial. Workgroup Participants declared a preference for early sight of these documents to assist with their engagement.

## Workgroup Impact Assessment

All Workgroup Participants agreed that the development of this Modification had followed the input and feedback provided through the Workgroup process and that the Proposer has brought forward proposals for the supporting information and documentation that has assisted that development. Workgroup Participants agreed that the Proposer had addressed their concerns through Amendments to the Proposal.

## 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<br>(i) the combined pipe-line system, and/ or<br>(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:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(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.                                                                                                                                                                                 | Positive          |
| 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 create a framework which permits NGT to test key principles of a NDM DSR product via the use of Trials. Trials would allow NGT to explore potential enhancements to existing tools and develop new ones by gathering data, and better understanding risks which will be vital when considering the suitability and development of future DSR tools.

Additionally, this Relevant Objective is furthered by this Modification as it is designed to further our thinking and deliver enhancements to our DSR pre-emergency tool thus helping to mitigate the risk of a supply shortage escalating to a declaration of a GDE. In the event of a GDE being declared and compulsory firm load shedding taking place this 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) “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”** is furthered by this Modification because NGT intends to explore the key concepts behind an NDM DSR product. The learnings from this Trial may have a direct contribution towards GB’s security of supply due to such a product providing a potential additional mitigating action in preventing a GDE from 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 the LDZ level too.

**Relevant Objective f) “Promotion of efficiency in the implementation and administration of the Code”** is furthered by this Modification because it may prevent full-scale solutions being implemented into the UNC which later have to be reformed or withdrawn due to first-year operational learnings.

### Workgroup Assessment of Relevant Objectives

A Workgroup Participant observed that the narrower scope of the Amended Modification has made it easier to support this Proposal.

No Workgroup Participants objected to the comments made by the Proposer in support of Relevant Objectives a) and b).

In respect of Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code, a Workgroup Participant observed that a generic approval of trials may not necessarily be positive and that this particular Relevant Objective ought to be viewed as neutral.

## 8 Implementation

Implementation is sought by late December 2023 / early January 2024 to allow time for NGT time to produce a Specification Document for an NDM DSR Trial to be run in March – April 2024.

Therefore, the following implementation dates are suggested:

If a decision is received by 21 December 2023, the implementation date should be 22 December 2023

If a decision is received by 27 December 2023, the implementation date should be 28 December 2023.

If a decision is received after 28 December, implementation should be on the next business day thereafter.

## 9 Legal Text

### Text Commentary

The legal text and associated commentary was provided prior to the beginning of the consultation period and consists of a new section within UNC TPD Section D to permit the use of Trials for NDM DSR product development.

### Text

Available at: <https://www.gasgovernance.co.uk/0856>

### Workgroup Assessment

The Workgroup considered the draft Legal Text presented on 02 November and is satisfied that it meets the intent of the Solution.

## 10 Consultation

Representations were invited from interested parties on 17 November 2023. All representations are encompassed within the Appended Representations section, including any initial representations.

The following table provides a high-level summary of the representations. Of the 7 representations received 1 supported implementation, 5 offered qualified support, and 1 provided comments.

| Representations were received from the following parties: |                   |                                                                                               |
|-----------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------|
| Organisation                                              | Response          | Relevant Objectives                                                                           |
| Cadent Gas Limited                                        | Qualified Support | a) Positive<br>b) Positive<br>f) None                                                         |
| Centrica                                                  | Qualified Support | a) Positive<br>b) Positive<br>f) None                                                         |
| Citizens Advice                                           | Qualified Support | a) Positive<br>b) Positive<br>f) None<br>d) Negative                                          |
| National Gas Transmission                                 | Support           | a) Positive<br>b) Positive<br>f) Positive                                                     |
| E.ON                                                      | Qualified Support | f) Positive<br>g) Positive<br>f) Positive                                                     |
| Scottish Power                                            | Comments          | a) Potentially (subject to more detail)<br>b) Potentially (subject to more detail)<br>f) None |
| SGN                                                       | Qualified Support | a) Positive<br>b) Positive<br>f) Positive                                                     |

Please note that late submitted representations may not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

## 11 Panel Discussions

### Discussion

The Panel Chair summarised that Modification 0856 would create a framework to enable National Gas Transmission (NGT) to run time-limited trials for NDM DSR to gather data, contributing towards National Gas Transmission’s longer-term thinking, allowing risks to be better understood and potentially increasing the pre-emergency tools available.

Panel members noted that no initial representations had been submitted.

Panel Members reviewed the initial Panel Questions raised and agreed these had been adequately assessed by the Workgroup.

Panel Members considered the representations submitted during the Consultation noting that, of the 7 representations received 1 supported implementation, 5 offered qualified support, and 1 provided comments.

The Joint Office noted that a late representation was received on 05 December 2023, offering qualified support.

Some Panel Members agreed with respondents and the Proposer that this Modification would enable the design of Non-Daily Metered (NDM) Demand Side Response (DSR) trials, which are then subject to consultation and Ofgem approval. The use of NDM DSR Trials will facilitate learning and data gathering which will support National Gas Transmission's and the industry's longer-term thinking on the suitability and effectiveness of a potentially enduring NDM DSR tool.

Panel Members noted the consultation response from Citizens advice and agreed with the specific requirement for a consumer experience evaluation.

### **Mitigation required for consumer risk**

Although not directly part of the Modification, some Panel Members agreed with some consultation responses and expressed concern about asking NDM customers, particularly domestic customers including those in vulnerable circumstances, to reduce gas usage at times of system stress, which are likely to be cold days. The ask of customers is very different to that in the electricity market, which seeks to delay use of energy intensive appliances for a short time. This approach would seek to reduce gas use across a whole gas day, hence reducing levels of comfort in homes, albeit with compensation. In addition, conducting these trials during a cost-of-living crisis could be expected to increase the risk, and particularly for customers in vulnerable circumstances. Panel Members noted that mitigations are being explored by National Gas Transmission outside of the UNC process. Suitable mitigations should be an essential criterion for Ofgem's assessment of the trial.

Panel Members noted that there are also opportunities for demand management for NDM – non-domestic sites.

### **Demand transfer?**

Some Panel Members agreed with some consultation responses noting, that it will also be important to consider what steps customers take to keep warm. If electric heating is used there could be a risk of a net increase in energy use across the gas and electricity systems. Any increase in electricity demand will likely be met by gas generation, which would further contribute to system stress not reduce it.

### **Specification Document**

Panel Members noted that the Workgroup had identified that the most important detail will need to be set out in the Specification of the trial and the terms and conditions of the contract for any Service Providers engaged for the trial. This will undergo a formal consultation process run by National Gas Transmission outside of the UNC. National Gas Transmission confirmed this will be a public consultation process, the results of which will be sent to the Authority for a decision on any potential ACTUAL trial.

National Gas Transmission confirmed that for a first-of-a-kind trial, the case can be made for a streamlined process for Authority approval of the Specification Document. For anything more enduring, the expectation is that the documentation would go through the UNC processes, via a Modification. Panel Members were keen to utilise the UNC governance process where at all possible to provide transparency and knowledgeable, expert and impacted parties having the best access to the consultation.

Panel Members discussed whether a UNC Related Document would be a better vehicle for the Specification Document. Approval could then be sought through the UNCC, noting that there is no consumer representation on UNCC.

A Panel Member noted that the Specification Document would have very comprehensive trial details, and questioned whether the UNCC would be the best vehicle for this.

A Panel Member noted, from the point of view of large non-domestic gas users, that if demand reduction can prevent a forced shutdown for intensive gas users this might be more acceptable (gas DSR for large non-domestic gas users may be more suitable than for domestic gas users).

Panel Members noted that there may be more scope for DSR with non-domestic sites with fewer concerns for the actions and well-being of customers in vulnerable circumstances.

Panel Members generally supported industry involvement in potential changes to gas usage which may affect customers in vulnerable circumstances.

NGT confirmed that a DESNZ-driven working group has been set up to review the Specification Document.

Some Panel Members noted that Ofgem should compare the governance proposed by Modification 0856 with the governance in place for the ESO's demand flexibility scheme (DFS) in electricity.

### Implementation and timeline

Some Panel Members expressed concern at the likely short timescales under which publication and consultation on the Specification Document might occur, to allow for any trial to take place in Winter 23/24 and agreed with the following consultation response:

- *Due to the many issues that need to be addressed for trials to go ahead, including those associated with customers in vulnerable circumstances and practical implementation in a gas context, we suggest that it is overly ambitious for NGT to intend to begin trials in winter 2023.*

Panel Members noted this feedback was also given in Winter 22/23 regarding DSR arrangements.

NGT noted that the trial may be allowed but that NGT is not compelled to run the trial this Winter.

### Modification assessment breadth

Panel Members noted that some consultation responses highlighted insufficient engagement with suppliers of NDM customers, as the parties most directly impacted by the trials that will result from the Modification and that the consultation response requested further engagement on NDM DSR with both Suppliers and Shippers.

Panel Members noted that most UNC Shippers are also Suppliers.

A Panel Member expressed concern as to whether the Relevant Objectives relating to competition are still fit for purpose, as they do not appear to adequately reflect the potential role of third parties, such as aggregators, in providing any flexible services.

## Consideration of the Relevant Objectives

Panel Members considered Relevant Objective a) Efficient and economic operation of the pipe-line system, agreeing that implementation would have a positive impact because:

- This Modification acts as an enabler for NDM customers to participate in potential Demand Side Response (DSR) trials to aid in NGT's role in balancing, to avoid declaration of a Gas Deficit Emergency (GDE). Panel Members noted that the specifications for any trial will need to provide suitable protections to consumers, and particularly those in vulnerable circumstances, given the significant concerns around governance that some Panel Members have.

Panel Members considered Relevant Objective 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, agreeing that implementation would have a positive impact because:

- NDM DSR trials would assist in the creation of sustainable longer-term tools that could improve the coordination of the NTS (primary transporter) and DNs (secondary transporters) and maintain the economic and efficient operation of the pipe-line system when managing future National Gas Supply Emergencies.
- The learnings from this Modification may have a direct contribution towards enhancements in GB's security of supply and mitigating against a Gas Deficit Emergency (GDE).
- Panel Members noted that the specifications for any trial will need to provide suitable protections to consumers, and particularly those customers in vulnerable circumstances.

A Panel Member who represented domestic consumers expressed concern about Relevant Objective d) concluding that competition will be negatively impacted, because in the absence of effective competition in a gas DSR trial, there is a risk that gas shippers/suppliers do not pass on a fair payment to consumers for any gas reductions they achieve.

A Panel Member countered that trials inherently impact competition, and this can be mitigated by NGT making the trial results and findings publicly available post-implementation to all Shippers/Suppliers, even those who did not participate in the trial.

Some Panel Members considered Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code, agreeing that implementation would have a positive impact because...

- Enabling a trial may prevent full scale solutions from being implemented into the UNC which are then not fully utilised or need to be reformed/removed due to first-year operational learnings.

Some Panel Members agreed the Modification negatively impacts Relevant Objective f) because it sets up a precedent for lack of industry governance over a UNC matter.

Some Panel Members believed that the Modification has a neutral impact on Relevant Objective f) because the trials may not identify insights that need to be considered for permanent code changes.

## Determinations

Panel Members voted unanimously that no new issues were identified as part of consultation.

Panel Members voted unanimously that there were no cross impacts associated with this Modification 0856.

Panel Members voted with 6 votes in favour (out of a possible 13), and therefore did not agree to recommend implementation of Modification 0856.

## 12 Recommendations

### Panel Recommendation

Panel Members recommended that Modification 0856 should not be implemented.

## 13 Appended Representations

No Initial Representations

Representation - Cadent Gas Limited

Representation – Centrica

Representation – EON

Representation – Citizens Advice

Representation - National Gas Transmission

Representation – SGN

Representation – Scottish Power

Late Representation – Energy UK