





UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0725 (Urgent):</h1> <h2>Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>To enable consumers to have their site SOQ updated to more accurately reflect their network use during the COVID-19 pandemic and to authorise the CDSP to temporarily accept Shipper User SOQ update requests outside of the normal period.</p>		
	Panel consideration is due on 21 May 2020	
	<p>High Impact:</p> <p>Shipper Users, End Users</p>	
	<p>Medium Impact:</p> <p>CDSP, Gas Transporters</p>	
	<p>Low Impact:</p> <p>Suppliers</p>	

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Timetable		 Any questions?
Modification timetable:		Contact: Joint Office of Gas Transporters
Ofgem Decision on Urgency	07 May 2020	 enquiries@gasgovernance.co.uk
Consultation Commences (3 Business Day consultation)	11 May 2020	 0121 288 2107
Consultation Close-out for representations	13 May 2020	Proposer: Steve Mulinganie
Final Modification Report available for Panel	18 May 2020	 steve.mulinganie@gazprom-energy.com
Modification Panel recommendation	21 May 2020	 07990 972568
Ofgem Decision	22 May 2020	Transporter: Northern Gas Networks
		 trsaunders@northerngas.co.uk
		 07580 215743
		Systems Provider: Xoserve
		 UKLink@xoserve.com
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1 Summary

What

Businesses are being impacted and disrupted owing to the measures taken as a result of the COVID-19 pandemic. These impacts include -

- Discontinuing or reducing activity (i.e. not being classed as essential, therefore being subject to lockdown).
- Establishing others (e.g. repurposing factories to make essential equipment).
- Increasing existing activity having been classed as essential or meeting shortages.

To correctly reflect their gas network use, UNC Users can only submit SOQ amendments to the CDSP during the Capacity Reduction Period, which does not commence until October 2020. The current arrangements do not cater for changes in consumer network use if there is an unprecedented event such as COVID-19. This means that many non-domestic sites impacted by the pandemic have SOQs that are unrepresentative of their actual usage, with no mechanism in place to amend and correctly reflect likely peak demands.

Why

During the unprecedented COVID-19 pandemic it is important that UNC Users and consumers are accurately charged for their expected gas network use, otherwise consumers risk ceasing operation permanently.

There is a precedent for short-term reductions in SOQ to reduce Daily Metered (DM) Supply Meter Point consumer demand during equivalent times of economic crisis, such as National Grid's UNC Modification proposal 0275 - *Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage* ([here](#)) which was implemented during the credit crunch in 2009.

How

This Modification proposes for Class 1 and Class 2 Supply Meter Points, and their relevant Shipper Users will be able to submit revised SOQs to the CDSP during a temporary window between the implementation date until 30 September 2020. For the avoidance of doubt, the SOQs will revert to their levels as of 1 May 2020 on 1 October 2020, after which point the Capacity Reduction Period commences.

2 Governance

Justification for Urgency

Over-stated SOQs are having a current material impact with many large industrial plants ceasing production altogether but still liable for significant and detrimental transportation charges every month. Consumers will not be able to reduce this exposure during the ongoing pandemic until the Capacity Reduction Period opens in October at the earliest. This Modification is proposed to follow an urgent timetable as this is a current issue with a significant commercial impact on some Shipper Users and Consumers.

Requested Next Steps

This Modification should:

1. be treated as Urgent and proceed as such under a timetable agreed with the Authority.

3 Why Change?

Since the COVID-19 pandemic many sites are in lockdown and business as usual has been disrupted. This has resulted in large changes in network use, especially for Class 1 and Class 2 Supply Meter Point sites, with many either ceasing production or seeing substantial reductions in daily demand. As a result, the site's transportation charges are no longer reflective of their actual use. It should be noted that for Class 3 and Class 4 Supply Meter Point sites, the SOQ of these sites can be reduced via an Annual Quantity (AQ) correction submission to the CDSP, but there is currently no corresponding process for Class 1 and Class 2 Supply Meter Point sites, outside of the Capacity Reduction Window which commences on 01 October each year.

It is essential that some form of short-term flexibility in the rules for capacity booking during the COVID-19 pandemic is appropriate and proportionate to allow these consumers to temporarily reduce their system capacity. It should be noted that there is some precedence for similar interventions to reduce costs for DM customers during the 'Credit Crunch', notably UNC Modification 0275 raised by National Grid and implemented in 2009. The COVID-19 pandemic represents similar challenges to businesses and a similar temporary solution seems warranted and proportionate when considering the overall impacts of COVID-19 on UK economy. The alternative is that some of these consumer will cease to use the network entirely, and Transporters will not recover any charges from that consumer, leaving other consumers worse off as transportation charges will need to be rebalanced/allocated in the longer term.

4 Code Specific Matters

Reference Documents

None

Knowledge/Skills

None

5 Solution

This Modification proposes to create a defined period (implementation date to 30 September 2020) in which Class 1 and Class 2 Supply Meter Points (excluding Seasonal Large Supply Meter Points) can submit reductions to SOQ values to the CDSP to better reflect their gas network use during this summer. For the avoidance of doubt the process would not be retrospective. Since increases in SOQ can be performed at any point during the year the Business Rules in this Modification solely focus on SOQ reductions save for reporting where the Shipper may inform the CDSP that the SOQ increase has been undertaken in line with this Modification, and instruct the CDSP to effect SOQ reduction as described in BR6.

Business Rules

1. A Shipper User can submit a revised Registered DM Supply Point Capacity for a Class 1 or Class 2 Supply Meter Points at any point during the Period from date of implementation to the 30 September 2020 ("COVID-19 SOQ revision period"). In order to qualify for a Supply Point Capacity reduction under this Modification, the Supply Meter Point must have been in Class 1 or 2 on 1 April 2020.

2. The revised Registered DM Supply Point Capacity must be equal or greater than the peak daily Metered Volume calculated for that site from 1 April 2020 to the date of application or 31 May 2020, whichever is the earlier.
3. No revised Registered DM Supply Point Capacity will take effect until 1 June 2020 at the earliest.
4. A Shipper User may only submit a revised Registered DM Supply Point Capacity if the site has not already had a revised Registered DM Supply Point Capacity accepted in line with the provisions of Annex G-1.
5. The CDSP will validate the revised Registered DM Supply Point Capacity and, if compliant with BR 2 & 3, will revise the Registered DM Supply Point Capacity as soon as reasonably practicable.
6. From 1 October 2020, the CDSP will revert to the Registered DM Supply Point Capacity value (and for the avoidance of doubt, Supply Point Offtake Rate value) that was applicable on 30 April 2020 for any sites that had a revised Registered DM Supply Point Capacity accepted with the Registered DM Supply Point Capacity. The CDSP shall identify any changes effecting a reduced DM Supply Point Capacity and apply the reversal on 30 September 2020, or as soon as practicable thereafter.
7. Any increase of DM Supply Point Capacity during the period from the Modification implementation date to 30 September 2020 that the Shipper wishes to apply from 1 October 2020 shall be separately notified to the CDSP in order for the CDSP to include in the reversal activity.
8. The reversal activity shall take effect for the Supply Meter Point even if the Registered User at reversal is not the User who submitted a revised DM Supply Point Capacity amendment.

6 Impacts & Other Considerations

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

Not applicable, as this Modification is unlikely to impact an SCR or major Industry changes as it should only be effective for a short period of time during the COVID-19 period.

Consumer Impacts

The COVID-19 crisis has meant that many non-domestic sites have had a significant change in gas network use due to production and other impacts. This Modification will enable Class 1 and Class 2 Supply Meter Point sites to amend their SOQs and better reflect their actual gas network use. This proposal also has appropriate controls in place to ensure that any reductions reflect recent consumption and not long-term changes.

If this temporary relief is not extended to the largest consumers during this time of economic dislocation (as was during the 'Credit Crunch' in 2009/10) then many of these customers will cease operations completely, so significantly reducing the total market from which to recover transportation costs. Given the above, all consumers will be better off in the long term by providing more flexible arrangements in the short term for DM sites. On this basis, this proposal is consistent with protecting the interests of all consumers.

Cross Code Impacts

There will be a requirement to cater for IGT DM sites with a related IGT UNC change.

EU Code Impacts

None.

Central Systems Impacts

The CDSP will be required to amend specific system parameters and perform a series of manual activities to support this Modification.

7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant Shipper Users; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant Shipper Users.	Positive
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.	None
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

This Modification proposal would have a positive impact on –

Relevant Objective a) Efficient and economic operation of the pipe-line system, the timely and short term relief offered by this Modification should help to avoid non-domestic sites disconnecting from the network, which would not be in the interests of the efficient and economic operation of the network, as it may lead to considerable underutilisation of the network in the longer term.

Relevant Objective d) Securing of effective competition, as this will improve cost reflectivity between Shipper Users and their consumers by aligning capacity costs with actual system usage and hence furthering competition between Shipper Users.

8 Implementation

As Urgent status is being requested, implementation could be as soon as authority approval is given.

9 Legal Text

Legal Text to be provided.

10 Consultation

Panel invited representations from interested parties on 11 May 2020. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 16 representations received 10 supported implementation, 1 offered qualified support, and 5 were not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Ceramic Confederation	Support	a) - positive	<ul style="list-style-type: none"> Notes that the impact of COVID-19 has created uncertainty in gas demands for many of our members. As product demands have slowed, many member sites have suspended, or reduced operations and energy demands have fallen significantly. Supports this Modification proposal as it will help reduce the fixed capacity charges for LDZ connected DM sites where their consumption has decreased as a result of the impact of the COVID-19 pandemic.
Cadent	Oppose	a) - negative d) - negative	<ul style="list-style-type: none"> Recognises the serious impact that COVID-19 is having on the Energy Industry and its customers and supports the need for all parties, Shippers, Suppliers, Transporters, Regulators and Government to collaborate effectively to mitigate the most serious impacts. Believes that the intent of Modification 0725 (Urgent) is to enable the relevant Shipper User to submit revised SOQs to the CDSP during a temporary window up until 30 September 2020, for Class 1 and Class 2 Daily Metered (DM) Supply Points. The SOQs would then revert to their 1 May 2020 levels with effect 1 October 2020. The aim of the Modification is to ensure transportation charges are reflective of a Supply Points actual current use. Points out that due to the very limited discussion on this proposal, it has serious concerns that this proposal will lead

			<p>to unquantified consequences in relation to transportation charges and distributional effects on gas Shippers with different customer portfolio.</p> <ul style="list-style-type: none"> • Notes that Transportation charges were set for the coming year in April 2020 and have been calculated using current DM SOQs. If the Capacity Reduction window of Oct – Jan was to be brought forward, then there could be a fall in transportation revenues. This would increase the risk of under recovery against allowed revenue, which may trigger the need for a mid-year price review leading to distributional, as well as charging volatility impacts, across the Shipper community. • Shares the same concerns with this Modification that were raised in relation to Modification 0721 (Urgent). If implemented, this Modification may simply transfer risk to other code parties with different portfolios, which cannot be in the best interests of the Industry as a whole or, ultimately, customers. • Notes that within the solution section (from which the legal text is derived), this Modification (as opposed to 0721) does not explicitly limit the temporary reduction in SOQ to those Class 1 and Class 2 Supply Points which have experienced unexpected changes in consumption of gas due solely to COVID-19. On this basis Shipper Users could take the opportunity to reduce the SOQ of all their Supply Points regardless of the cause of such reduction. Therefore, sites which are temperature sensitive or may be down for planned maintenance activities for example could make inappropriate use of the transitional reduction window. • Also notes that there does not appear to be a limitation on the number of times a Shipper can reduce its SOQ. Cadent are therefore concerned with the interaction between this Modification and 0724. If this Modification were to be implemented, then in theory the Shipper could make multiple SOQ reductions (post 1 June) every time the SOQ were to ratchet. Essentially, a Shipper could attempt to 'profile' their SOQ rather than have a consistent one for the period up to 1 Oct 2020. • Understands the rationale of the Modification targeting the SOQ (as this will give the largest reduction i.e. the 'capacity' element of the transportation charge), but they do have concerns that by effectively 'commoditising' capacity it moves away from the purpose of the SOQ in charging methodologies which is to recover the cost of peak capacity requirements of a given supply point.
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			<ul style="list-style-type: none"> • Points out that its main concern is that there are likely to be impacts and costs (on all parties) which, due to the speed at which this Modification has been developed and issued to consultation, cannot be adequately addressed, or mitigated against. • Notes that the Modification states that “the revised Registered DM Supply Point Capacity must be equal or greater than the peak daily Metered Volume calculated for that site from 1 April 2020 to the date of application or 31 May 2020, whichever is the earlier”. It is unclear whether this is a drafting error or is the Proposer’s desired solution. The drafting would allow a Shipper to amend a SOQ at any date between 1 June and 30 September using the maximum SOQ between 1 April and 31 May, and not the maximum SOQ between 1 June and the date of application. The requested SOQ could therefore be lower than the most recent gas usage.
Centrica	Oppose	a) - none d) - negative	<ul style="list-style-type: none"> • States for Relevant Objective a) Providing relief for certain Users for a few months before reverting to the previous capacity levels is unlikely, in practice, to affect the efficient and economic operation of the system. • States for Relevant Objective b) The effect of the Modification is to move the liability that sits with one set of Users to a different set of Users. The justification for this is not addressed within the Modification and alternative solutions could avoid this cross-subsidy. Any unjustified cross-subsidy must be considered negative in terms of effective competition. • Agrees it is right to assess whether parties should get relief from network charges at this time, and what the terms should be for such relief. However, whilst we also recognise the urgency of the situation, this is not the correct or appropriate solution for the issue it seeks to address. It appears to be built on a misunderstanding of what capacity charges reflect (annual peak daily load) and so is not a coherent Modification. • Notes that Ofgem, when commenting on being unable to make a decision on Modification 0721, mentioned: <ul style="list-style-type: none"> ○ other initiatives being considered to address the impacts of the COVID-19 crisis. It would be preferable for this issue to be considered in a measured way as part of a wider assessment of those other initiatives, rather than through a ‘back-door’ route by changing Industry rules without proper justification and limited Industry scrutiny.

			<p>In considering any Errors or omissions in this Modification that should be taken into account, notes:</p> <p><u>Feels there is a misunderstanding of what capacity charges reflect:</u></p> <ul style="list-style-type: none"> • The Modification proposes that certain Users can 'submit reductions to SOQ values to the CDSP to better reflect their gas network use during this summer'. However, the liability for capacity charges relate to annual peak daily load. Lockdown is unlikely to have any significant impact on the annual peak daily load of most sites as these will typically occur during the winter period. Therefore, for the majority of sites the peak daily load will have already occurred for gas year 2019/20. For 2020/21 the proposal explicitly seeks to revert to the Registered DM Supply Point Capacity value that was applicable on 30 April. Therefore, the proposal does not appear to envisage any change in observed annual peak daily loads as a result of the lockdown, and so offers no coherent justification for reducing the annual liability (associated with these peak daily loads). <p><u>Modification 0275 has important differences to this Modification and so claiming as a precedent is unhelpful and potentially misleading:</u></p> <ul style="list-style-type: none"> • This Modification 0725 cites previous Modification 0275 as providing precedence for this change, claiming that it was a similar intervention. However, there were important principles and protections in Modification 0275 which this Modification 0725 does not contain. • For example, in Modification 0275 there was a requirement to obtain and provide a signed letter of consent from the relevant end consumer stating the anticipated peak daily load for the whole of the current Gas Year and the next Gas Year, the reason for the change in peak daily load, and that gas will continue to be offtaken (otherwise Isolation and Withdrawal terms would apply). • Therefore, Modification 0275 still recognised the concept of annual peak daily load and sought to ensure that only those that were genuinely experiencing a reduction in gas offtake and that expected this to endure over the following gas year would make use of the arrangements. • Feels that this Modification 0725, by contrast, seeks to create the ability to temporarily reduce capacity to a level that will be explicitly below the level that is expected to be required in the following gas year. • Also notes that under the Modification 0275 arrangements, if a customer chose to reduce its capacity on the distribution
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			<p>network, it would no longer have any rights over that relinquished capacity. This Modification 0725, by contrast, explicitly seeks to maintain the rights to the capacity held prior to any reduction.</p> <p>As Ofgem recognised in its Decision on Modification 0275:</p> <p><i>“The proposals do not represent a fundamental shift from the current arrangements, and simply bring forward the capacity reductions that would be allowed under the current arrangements in the following gas year”.</i></p> <ul style="list-style-type: none"> • Feels it is clear that this does not apply to the current Modification, which is a fundamental change to current arrangements whereby a subset of Users can temporarily reduce capacity (and associated charges) to a level which is below: the previous year’s peak daily load; the current year’s peak daily load; and next year’s expected peak daily load – whilst maintaining the rights associated with its pre-adjusted capacity. <p>In considering additional analysis or information, notes:</p> <p>Areas where there appear to be stronger justifications for intervention seem to be specifically excluded from the Modification:</p> <ol style="list-style-type: none"> 1. Some sites peak in the summer, so the 2019/20 daily peak will be affected; <p>In the case of sites which peak in the summer, the Modification explicitly excludes Seasonal Large Supply Meter Points – despite such sites potentially having a more genuine case for intervention as they are required to nominate their summer peak by 1 March.</p> <ol style="list-style-type: none"> 2. Some sites will not fully recover after lockdown and will require a lower Registered DM Supply Point Capacity on an enduring basis; <p>If a site is unlikely to fully recover after lockdown it might be appropriate, in such exceptional circumstances as these, to consider bringing forward the Capacity Reduction Period start date to allow sites to reflect their new expected enduring level of peak demand post-lockdown. However, the Modification explicitly states that the Registered DM Supply Point Capacity will revert to the old levels on 1 October, and so is not seeking to bring forward the start date of the Capacity Reduction Period.</p> <ul style="list-style-type: none"> • To be clear, to avoid undue discrimination, any bringing forward of the start date for the Capacity Reduction Period would need to be accompanied with appropriate protections – for example, if the site subsequently sought to increase its
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			<p>registered capacity again for either the 2019/20 or 2020/21 gas years then Capacity Reconciliation Charges would need to apply, fully backdated to the period of the initial reduction in 2019/20.</p> <ul style="list-style-type: none"> • Whilst recognising the urgency of the situation, there are significant problems with this Modification that would have been better addressed by further development, including through Industry discussion, before reaching this stage. Similar views were expressed by Centrica, and others, relating to Modification 0721 and consideration should be given to how the Industry can make improvements in this regard.
Corona Energy	Qualified Support	<p>a) - positive d) - positive</p>	<ul style="list-style-type: none"> • Supports the intent of this Modification as it seeks to ensure that larger I&C sites reflect an accurate SOQ at a time where an unprecedented impact is being experienced for non-domestic sites in the UK. • In light of the announcement on 10 May 2020 in which Boris Johnson indicated that production and manufacturing workers should be encouraged to return to work, Corona Energy pose the question as to whether this Modification is now required and appreciate that this announcement could not have been foreseen by the Proposer. • Does not believe that some key processes have not been included in this Modification. This should not necessarily mean that the Modification should not progress, however, feel that subsequent change would be required to satisfy these areas: <ul style="list-style-type: none"> ○ Believes that any amendments to the SOQ need to be customer lead, with the customer requesting the amendments to ensure that any cost savings are passed on to the customer via the Shipper. This could be undertaken by the CDSP or another existing Industry panel; and ○ Clarity is required on how the reduction in transportation charges will impact future charging arrangements and how any reduced costs now may be socialised in future – does not want to see a material increase in future costs as a result of short term cost reduction; • Recommend that this could be achieved via a post COVID-19 audit process in which any erroneous changes to the SOQ as a result of this Modification are highlighted and the difference between the amended SOQ and true SOQ are charged to the Shipper in a pseudo-ratchet charging regime.

			<ul style="list-style-type: none"> • With these points not being addressed, Corona Energy are unsure as to whether the change would best facilitate Relevant Objective a), as they do not believe that deferring costs to a future undetermined time reflects an efficient and economic operation of the pipeline system. However, if these are implemented then Corona Energy are satisfied that objective a) would be better facilitated. • Has concerns regarding the revenue recovery mechanisms that would be required as part of this Modification and refer to their earlier suggested method of cost recovery as a result of the proposed changes.
Energy Intensive Users Group	Support	a) - positive	<ul style="list-style-type: none"> • Notes that the impact of COVID-19 has created uncertainty in gas demands for many customers. As product demands have slowed, sites have closed, or reduced energy demands significantly. • Supports this Modification proposal as it will help reduce the fixed capacity charges for LDZ connected DM sites where their consumption has decreased as a result of the impact of the COVID-19 pandemic. • Points out that within the current health & economic climate, EIUG believe many DM 'Industrial and Commercial' consumers have reduced (or completely ceased) their levels of gas consumption due to falling product demands. Many do not know when normal operations will resume. • Suggests that this Modification should be extended to be applicable from April (or a manual adjustment process included) when the pandemic first started to impact the UK economy.
ENGIE	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Believes this is a sensible Modification that protects daily metered customers from excessive capacity costs during periods of reduced consumption due to COVID-19.
E.ON	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Supports the solution proposed and believe it a sensible approach given the current climate. • Supports a process of validation and evidence production and the request of further clarification if needed. • Does not anticipate any system changes to accommodate this change, but it will require some FTE to conduct the activity and to validate any requests which are put forward. • Suggests that there may also be sites which are eligible on the IGT network, E.ON would support a cross-code review and an equivalent IGT UNC Modification raising if necessary.

Gazprom Energy	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Notes that this Modification is one of a number of Modifications developed jointly with stakeholders to address, as part of a suite of changes, the ongoing catastrophic effect of the COVID-19 pandemic on many UK businesses. • Believes this Modification provides a measured and proportionate response to the unprecedented circumstances we face as an Industry. As a direct result of the pandemic and legal and other measures introduced by the UK Government, many large Industrial and Commercial businesses have either ceased using gas altogether or else have reduced their consumption considerably. • Believes that this step change in operations could not have been reasonably foreseen and therefore accommodated within existing Industry processes so requiring this Modification to be put forward to address this undue detriment. • As the proposer Gazprom Energy believe the proposal is positive in respect of Relevant Objectives a) & d). • Suggests that in order to allow the CDSP the maximum time to accommodate any requests from shippers to reduce the SOQ of these sites, a decision is required as soon as possible. • Notes that UNC Modification 0275 (Urgent) - <i>Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage</i>, was raised during the last economic crisis to provide relief to Daily Metered customers from excessive capacity costs. • Notes that this previous Modification, raised by National Grid Distribution (now Cadent), was not opposed by any Transporters. The Proposer supported the changes in that it would: <ul style="list-style-type: none"> “Enable Users to reduce their capacity bookings at DM Supply Meter Points in line with their LDZ exit capacity requirements.... This should improve the cost reflectivity of the regime within this period. This can be expected to facilitate DNO Licence Standard Special Condition A11.1 (d). “ • In addition, Ofgem in its decision letter for UNC Modification 0275 noted that: <ul style="list-style-type: none"> “With the current capacity booking arrangements, if customers seek to control their capacity charges the only route open to them is to vacate the site or
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			<p>disconnect from the gas network, leaving parts of the pipeline unutilised for a period of time.</p> <p>If this course of action was taken by a significant proportion of DM customers, it would not be in the interests of the efficient and economic operation of the network as it may lead to considerable underutilisation of the network in the longer term.”</p> <ul style="list-style-type: none"> • Agrees with this statement and would note further that under the current circumstances the ability to undertake physical disconnection is not practicable or possible. Gazprom Energy believe that the same conditions exist now, as then and as noted the mitigation available is even less due to the inability to undertake physical works. • Believes that now, as then, there is a need to reduce the excessive capacity costs of daily metered customers to ensure they are not driven out of the market. This change builds on this precedent and by doing so will improve both cost targeting (Relevant Objective d) and ensuring continued economic and efficient level use of the existing gas networks Relevant Objective a)).
ICoSS	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Points out that owing to the COVID-19 pandemic, many large industrial customers have either completely ceased using gas or have significantly reduced their daily consumption. At present many Daily Metered sites have Registered Daily Meter Supply Point Capacity (SOQ) that is far in excess of their current requirements. These customers are currently cross subsidising Non-Daily Metered customers. • Notes that Modification 0275 was raised during the last economic crisis (the credit crunch), to provide relief to Daily Metered customers from excessive capacity costs. This prior Modification, raised by National Grid Distribution (now Cadent), was not opposed by any Transporters. The Proposer supported the changes in that it would: <i>“enable Users to reduce their capacity bookings at DM Supply Meter Points in line with their LDZ exit capacity requirements.... This should improve the cost reflectivity of the regime within this period. This can be expected to facilitate DNO Licence Standard Special Condition A11.1 (d).”</i> • Notes that in Ofgem’s Decision Letter for Modification 0275, Ofgem noted that <i>“With the current capacity booking arrangements, if customers seek to control their capacity charges the only route open to them is to vacate the site or disconnect from the gas network, leaving parts of the pipeline unutilised for a period of time. If this course of action</i>

			<p>were taken by a significant proportion of DM customers, it would not be in the interests of the efficient and economic operation of the network as it may lead to considerable underutilisation of the network in the longer term.” ICoSS agree with this statement.</p> <ul style="list-style-type: none"> • Believes that the same conditions exist now, as then. Now, as then, there is a need to reduce the excessive capacity costs of daily metered customers to ensure they are not driven out of the market. This changes builds on this precedent and by doing so improve both cost targeting (Relevant Objective d)), and ensuring continued economic and efficient level use of the existing gas networks (Relevant Objective a)). • Points out that in order to allow the CDSP the maximum time to accommodate any requests from Shippers to reduce the SOQ of these sites, a decision is required as soon as possible. • Notes that as this new process is voluntary ICoSS expect no change to member operations unless they choose to utilise it. Expects that the change to transportation charges for the market from this process will be negligible as the number of eligible customers represent only a very small proportion of the market. • Highlights that the legal text has not been reviewed as it has not been made available at the time of providing its response.
Mineral Products Association	Support	Not specified	<ul style="list-style-type: none"> • Notes that many gas consuming mineral product business have been affected by the COVID-19 pandemic resulting in, as described in the Modification, reduced gas demand. At these challenging times it is important that these businesses are protected from excess costs which are not warranted under the circumstances. The previous Modification 0275, noted by the proposal, demonstrates awareness of the supply community to these issues and sets out appropriate measures that are also applicable under current circumstances. • Would like to see implementation backdated to start from 23 March 2020 when lock-down was initiated. At this point many businesses were required by the Government to begin measures to reduce or cease production. • Notes that for some sectors, as noted in the Modification, production has increased.
Northern Gas Networks	Oppose	c) - negative d) - negative	<ul style="list-style-type: none"> • Feels that this Modification is negative against Relevant Objective d) <i>Securing of effective competition</i> as

			<p>automatically reinstating a site's Supply Point Capacity (SOQ) on 1st October 2020 after a period of temporary reduction assumes that the same capacity will still be available within the network as it was on 30 April 2020. The Modification does not take into consideration other sites in constrained areas requesting an increase in capacity or new sites entering the market. This could lead to uncontrollable network constraints and instability. It also seems to introduce into the UNC the concept of reservation capacity without financial charge.</p> <ul style="list-style-type: none"> • Also feels that this Modification is negative against Relevant Objective c) <i>Efficient discharge of the licensee's obligations</i> as the temporary reduction in SOQ will have an impact on transportation charges, which are governed by our licence, including requirements to collect revenue as closely as possible to allowed revenue each year. To avoid breach of these licence conditions the transportation charges may need to be amended, which could trigger a price change within year, having an impact on all Shippers and reducing the stability and predictability of prices. • Feels that there is a risk that the same amount of capacity may not be available in the network on 01 October 2020 as it was on 30 April 2020 for sites whose SOQ will be automatically re-instated, leading to more capacity being required than is available, particularly in constrained areas of the network, leading to system instability. • Notes that this Modification seeks to relieve eligible sites from transportation charges, the impact of which cannot be fully assessed until the Modification is in place and Shippers advise of the sites intending to take advantage of this Modification • Suggests that the Modification, as drafted, seems to permit sites to continually decrease their SOQ during the period, even if usage within the reduction period causes it to ratchet up, which it believes does not feel that this is the intent of the Proposer.
Npower	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Understand and support the intent of this Modification. The solution proposed seems pragmatic and fair. • Agree with the Proposer that this Modification will have a positive impact on Relevant Objectives a) and d).
ScottishPower	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Supports the principle of the change, as it is the right thing to do given the current situation where businesses are being impacted by the COVID-19 restrictions i.e. discontinued or

			<p>reduced usage or increased usage due to being classed as an essential business.</p> <ul style="list-style-type: none"> • Believes that this change will allow Shippers to submit accurate SOQs which in turn will result in accurate charging. • Agrees the Modification will have a positive impact on the Relevant Objectives a) and d). • Believes a significant implementation lead time would not be required.
SGN	Oppose	<p>a) - negative d) - negative</p>	<ul style="list-style-type: none"> • Opposes this Modification as it negatively impacts Relevant Objectives a) efficient and economic operation of the pipeline system, and d) securing of effective competition between relevant shippers [and] suppliers. The Modification has the effect of sterilising capacity and breaks the existing link between the reservation and payment for capacity, creating a distributional subsidy between Users. • Acknowledges the significant impact of the COVID-19 pandemic upon gas Industry participants, particularly in relation to lockdown arrangements which implemented restrictions upon population mobility, accompanied by government instructions to close or re-purpose certain categories of premises. As a result, the otherwise expected demand of industrial sites may have significantly and unexpectedly decreased. • Believes that there are similarities between this Modification and Modification 0275 - Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage, raised in 2009 as a result of the economic crash which created similar unexpected reductions in consumption and therefore capacity requirements. However, SGN note a key difference between the proposals as Modification 0725 requires that the original capacity is reserved for the User to re-utilise from 01 October, while Modification 0275 had no such mechanism. This creates three significant issues: <ul style="list-style-type: none"> 1. Sterilisation of Capacity <p>In the interim period, the rescinded capacity is unavailable for any other Users, despite not being subject to a formal booking and therefore not being utilised. This contravenes the UNC capacity management procedures and could result in network access requests being denied and reinforcement being recommended, despite the capacity being available at the time. There is also the risk that the requirement for the original (higher) capacity may not subsequently re-materialise, however GDNs would still be required to reserve it during the interim period.</p>

			<p>2. Undermining Charging Principles</p> <p>Under usual processes, peak SOQ bookings apply throughout the year and define an annual capacity requirement, even in the case of industrial loads with significant seasonal fluctuations. The cost of providing this peak capacity is also annualised and spread throughout the year. This establishes the principle that peak capacity should be retained and charged at an annual level. Modification 0725 contradicts this principle by amending SOQ bookings for the summer period, before returning to the original level – the latter creating an acknowledgement that this is the true annual peak which should be applied throughout the period.</p> <p>3. Distributional Implications for NDM and Domestic Customers</p> <p>During the interim period of capacity reduction, no transportation capacity charges will be applied in respect of the reserved capacity. By reserving the capacity but recovering the associated transportation charges from the wider customer base, there is a disconnect between the User of the capacity and the funding arrangements. This creates an economic and distributional cross-subsidy, with the NDM and domestic sector funding a greater proportion of capacity being utilised by Industrial and Commercial customers.</p> <ul style="list-style-type: none"> • For the above reasons, while SGN supported Modification 0275, they are unable to support Modification 0725. • Notes that due to the short timescales, it has not been able to undertake any of the detailed analysis to quantify the impact of this Modification that would normally be undertaken. Furthermore, the Modification does not provide any data to establish the likely take up of the proposed solution. • Accordingly, suggests that the impact of this Modification is not quantified and will not be fully recognised for some time after their introduction. If this Modification has a significant impact on transportation revenues it may be necessary to accommodate this through a mid-year tariff review. • Notes the recent implementation of Modification 0724 - Amendment to Ratchet charges during COVID-19 period and would highlight that any potential conflicts will need to be identified and managed. • Points out that its key priorities in this period are to ensure that their customer needs are met, particularly those customers in vulnerable circumstances; to maintain secure,
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			<p>safe, and reliable supplies; and ensure the safety of their customers and workforce.</p> <ul style="list-style-type: none"> • Points out that in ensuring that SGN deliver the first priority of meeting customer needs, SGN recognise that it may be important to support the alleviation of operational market challenges to safeguard their customers. However, in developing a coordinated approach, it is important that Industry aligns with the wider government COVID-19 Response Strategy, articulated through the clear expectations expressed by Ofgem. Central government has introduced a large number of packages to support Industry and consumers in these challenging times and it is important that any Modifications are aligned to, and complimentary with, this approach. This alignment with central government strategy is particularly important where urgent Modifications could have a substantial impact on transportation revenues, as such actions could preclude networks from taking action at a later date should it be requested by Ofgem. SGN is committed to supporting these efforts and will coordinate with Industry wherever possible. However, they (SGN) must prioritise their involvement to those areas of most significance or needing immediate relief and they are dependent upon the guidance of central government and Ofgem. A holistic view of the most appropriate measures must be taken to ensure they (SGN), and Industry, are promoting the most economically sound proposals as part of the wider government response. • Suggests that given the intention for the Modifications to provide rapid and pragmatic relief from COVID-19 related challenges, SGN welcome Ofgem's intention to issue a decision on 22 May 2020 and anticipate implementation will follow as soon as reasonably practicable. • Recognises that impacts cannot be fully assessed due to the urgent timetable. • Anticipates a significant impact upon transportation revenue which, if implemented, could impact their liquidity arrangements and may not be recovered for a two year period or could be subject to a mid-year tariff review. • Notes that legal text has been drafted as transitional text to compliment the otherwise normal application of UNC. Given the urgent Modification timescales, the text reflects the business rules at a high, rather than detailed level. As such they are satisfied that the text delivers the intent of the solutions, however, acknowledge that further activity beyond
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			<p>that defined in the text may be required to ensure successful implementation and operation of the proposed measures.</p> <ul style="list-style-type: none"> • Notes that the Modification has been developed according to an urgent timescale and as such is drafted at a high, rather than detailed, level. Further activities may be required to ensure successful application of the proposal in addition to defining smooth exit arrangements. • Points out that due to the short development timescales it has not been able to undertake any of the detailed analysis to quantify the impacts of this Modification which they would normally undertake. Furthermore, the Modification does not provide any data to establish the likely take up of the proposed solution. As such it has not been possible to undertake analysis to quantify the impact of this Modification and potential impacts will not be fully recognised for some time after implementation.
Utilita	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Agrees a change is needed, so Network Users are charged for their correct network usage and SOQ may need to be adjusted to achieve this. • Also agrees that the change will help achieve Relevant Objectives a) and d).
Wales & West Utilities	Oppose	a) - negative c) - negative d) - negative	<ul style="list-style-type: none"> • Does not support this Modification for two key reasons: <ol style="list-style-type: none"> 1. It does not recognise that capacity transportation charges support the provision of peak capacity in a Gas Year but are collected evenly over the course of the year so that Shippers do not experience peaks and troughs in transportation charges. This means that if implemented the Modification would prevent the recovery of the revenue required to provide the capacity used earlier in the Gas Year and typically over the winter, rather than the summer. 2. It introduces a concept of free and flexible reservation of capacity and this contravenes the existing arrangements for new connections or existing customers requesting increases in capacity. • Believes that this Modification is negative in respect of furthering Relevant Objective c) Efficient discharge of the licensee's (Transporter's) obligations because they would be prevented from recovering the costs of providing capacity as set under their price control. • Believes that it is negative in respect of further Relevant Objective d) Competition between Shippers because new customers and existing customers may be prevented from acquiring capacity that they wish to use.

			<ul style="list-style-type: none"> • Also believes that for both these reasons it is also negative in respect of furthering Relevant Objective a) Efficient and economic operation of the pipe-line system. • Would experience a decrease in transportation revenue from those customers that made use of this Modification. As the time for consultation was so short, WWU have not been able to estimate this decrease from the data they have on Daily Metered Supply Points. The charging function is non-linear in SOQ so producing an accurate estimate is not straightforward. • Points out that the redacted information on revenue impact was only provided to Ofgem. • Understands that the operations that Xoserve would have to do to make these adjustments are not straightforward and may require appreciable resource, WWU expect this to be a particular issue if the capacity reductions all have to be reversed for 1 October 2020. • Points out that the legal text was not available at the start of the consultation and was published on the second day of the three day period, and as a consequence they (WWU) have not been able to review it. <p>Have also provided the following comments:</p> <p>Section 1 Summary</p> <ul style="list-style-type: none"> • In the “why” section the Modification states: <p>“There is a precedent for short-term reductions in SOQ to reduce Daily Metered (DM) Supply Meter Point consumer demand during equivalent times of economic crisis, such as National Grid’s UNC Modification proposal 0275 - Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage (here) which was implemented during the credit crunch in 2009.”</p> <p>Modification 0275 did two things:</p> <ol style="list-style-type: none"> 1. It removed the Bottom Stop SOQ on a temporary basis until interruption reform was implemented. The Bottom Stop SOQ meant that, in some cases, a peak SOQ nearly two years ago meant that a SOQ reduction could not be implemented. 2. It required a letter stating the reasons for the requested reduction. <ul style="list-style-type: none"> • Given that the Bottom Stop SOQ no longer exists as it was later permanently removed, the justification of this Modification 0725 on the basis that Modification 0275 is somewhat misleading. Also, if the Proposer believes that
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			<p>Modification 0275 is a useful precedent then we would have expected similar provisions regarding a letter of assurance.</p> <p>Section 5 Solution</p> <ul style="list-style-type: none"> • Business Rule 2 states that the capacity cannot be reduced to a level lower than the maximum between 1 April and 30 May or the date of application whichever is the earlier; however, it can be reduced to a level lower than reached on a date after 30 May. WWU realise that the intent of the Proposer is to address an issue where demand has fallen, but for a site where demand has risen, after 30 May (the reason for Modification 0724 (Urgent) <i>Amendment to Ratchet charges during COVID-19 period</i> that has recently been directed for implementation by Ofgem), it would potentially allow those sites to reduce their capacity, ratchet and then reduce it again continually. This could be rectified by removing the 30 May date from the business rule and not allow reductions below the capacity used between 1st April and the date of application. <p>Section 6 Impacts and other considerations</p> <ul style="list-style-type: none"> • The consumer impacts section only focuses on Supply Points that wish to decrease their capacity and does not consider those that may wish to make use of the capacity released. <p>Section 7 Relevant Objectives</p> <ul style="list-style-type: none"> • The Modification asserts that Relevant Objective a) is furthered and states: <i>“the timely and short-term relief offered by this Modification should help to avoid non-domestic sites disconnecting from the network, which would not be in the interests of the efficient and economic operation of the network, as it may lead to considerable underutilisation of the network in the longer term.”</i> • Believes that the Modification provides no evidence that there is a risk that non-domestic sites will disconnect from the network. • Believes that the view is that the justification in the Modification that this furthers Relevant Objective d). <i>“as this will improve cost reflectivity between Shipper Users and their consumers by aligning capacity costs with actual system usage and hence furthering competition between Shipper Users”</i> <p>is wrong as it does not align costs with system usage rather it allows system usage without full cost recovery because</p>
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			<p>Transporters recover the costs of peak system usage uniformly over the 12 months of the year as explained in the additional information section of this response.</p> <p>Analysis</p> <ul style="list-style-type: none"> • Capacity based transportation charges are recovered on a flat profile over the year as the feedback is that this is preferred by Shippers. Shippers are charged for the maximum capacity used which, with a very few exceptions, is used in winter. If charges were levied at the time peak capacity was used, or forecast to be used, then charges would be much higher in winter and much lower in summer. This could be done but WWU expect that there would be considerable opposition to such a change. Since charges are recovered during the summer to pay for the capacity provided during the winter, then allowing reductions in capacity in the summer would effectively mean that the capacity used earlier in the Gas Year was not paid for. • Notes that the Modification allows capacity reductions to be automatically reversed on 01 October. Currently, if a new connection or an existing customer that wishes to increase its capacity, wishes to ensure that capacity is available at a future date, then they can ask for an Advanced Reservation of Capacity Agreement. In return for reserving the capacity, and therefore meaning that other customers cannot use it, the customer agrees to guarantee to pay for the capacity for a period of time whether or not they make use of it. This proposal runs counter to that arrangement. • Believes that if the principle of free capacity reservation were allowed, customers might take the view that they could reserve capacity for free with no commitment. This could lead to hoarding of capacity leading to other customers having to pay for reinforcement that would not otherwise be required. WWU saw this sort of behaviour (in that case hoarding of entry capacity) when biomethane injection into distribution networks first started and had to take action to prevent it. • Are aware that on some networks there are customers that wish to increase their capacity but cannot without funding reinforcement. It seems unreasonable to deny these customers, that may wish to increase their capacity, the opportunity to use capacity released by another customer who no longer wishes to pay for it. This would mean that the capacity could not be automatically returned to the original customer on 01 October.
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			<ul style="list-style-type: none"> Notes that the Modification has a provision that capacity is automatically returned to its previous level on 01 October 2020 and this applies even when there has been a change of Shipper. It is not clear how this Shipper is informed that this reversal will happen automatically, there is no mechanism for this to happen and therefore the new Shipper may suddenly see an increase in capacity that it may not have factored into its discussions with its customer. WWU understand that many new Supplier contracts start on 01 October, therefore assumes that this may not be a trivial matter.
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Please note that late submitted representations will 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

12 Recommendations

Panel Recommendation

Panel Members recommended:

- that Modification 0725 (Urgent) should [not] be implemented