UNC Final Modification Report	At what stage is this document in the process?
# UNC 0730V: ## COVID-19 Capacity Retention Process	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

Allow sites (supply points) isolated in accordance with Modification UNC723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period* to be subject to a rebate of 50% of their LDZ Capacity Costs.

✖	The Panel does not recommend implementation.
!	High Impact: Shippers
!	Medium Impact: Transporters
!	Low Impact: Customers

Contents

Timetable

Modification timetable:

Modification considered by Panel*	16 July 2020
Initial consideration by Workgroup*	23 July 2020
Workgroup Report presented to Panel*	15 October 2020
Draft Modification Report issued for consultation*	15 October 2020
Consultation Close-out for representations*	05 November 2020
Final Modification Report available for Panel*	10 November 2020
Modification Panel initial consideration*	19 November 2020
Modification Panel decision*	27 November 2020
Consideration of Variation Request by Workgroup*	08 December 2020
Variation Request presented to Panel*	17 December 2020
Draft Modification Report 0730V issued to consultation	17 December 2020
Consultation 0730V Close-out for representations	12 January 2021
Final Modification Report 0730V available for Panel	14 January 2021
Modification Panel decision 0730V	21 January 2021

** relates to the original 0730 Modification*

Any questions?

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1 Summary

What

Many businesses, consumers as well as Gas Shippers and Suppliers are being adversely impacted and are suffering undue detriment due to measures implemented by the UK Government as a direct result of the unprecedented COVID-19 pandemic. This Modification focuses on providing relief for those customers, (by way of a reduction of transportation charges levied on the shipper), where for reasons outside their control, have had to stop production or have had to cease to trade as a direct result of the pandemic. While these sites are either closed or utilising minimal levels of gas, the current arrangements do not cater for any relief from capacity charges. Accordingly, those customers impacted by the pandemic are being charged for capacity which they are unable to utilise.

Why

During the unprecedented COVID-19 pandemic it is important that business consumers are charged fairly for their actual gas network use, otherwise businesses may exit the UK market permanently, leading to an adverse impact on all remaining consumers' costs in the future.

Against the backdrop of the pandemic, a specially convened session of the Uniform Network Code (UNC) Distribution Workgroup was held on 14 April 2020 to consider the likely impacts of COVID-19 on the UNC arrangements and potential mitigating actions which could be taken to provide relief for relevant parties.

This led to a number of Urgent Modifications being brought forward. Whilst UNC722, UNC723 & UNC724 were approved for implementation, UNC721 and UNC725, which focused on providing relief from Capacity Charges, were both rejected.

Having considered the points set out in the rejection letters for UNC721 and UNC725 we are proposing this Modification which we believe provides fair and proportionate relief to businesses impacted by COVID-19.

By not changing either the prevailing AQ, (as per UNC721), nor the SOQ, (as per UNC725), we hope to avoid any unintended impact on the integrity of the AQ's and SOQ's held on the system and avoid any consequential impact on the process that depends on these data items.

By linking our proposal to UNC723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period* we hope to address concerns over a suitable verification process by using the arrangements already approved by Ofgem as suitable under UNC723.

As noted in the rejection letters for UNC721 and UNC725 the current isolation process was last subject to a substantive change in 2004 as part of the unbundling of metering provisions from the then network code. At that time, the split in transportation charging between capacity and commodity was 50:50 whereas now the split is 95:05.

We believe it is fair and proportionate to utilise the isolated status of a supply point to enable us to offer partial relief from capacity charges, without requiring a full Supply Point Withdrawal.

If nothing is done, we believe that some consumers will exit the market permanently and therefore cease to use the network entirely. Accordingly, Transporters would not recover any charges from these consumers via Shippers, leaving other consumers worse off as transportation charges would need to be rebalanced/allocated in the longer term i.e. those left would have to pay more.

How

The proposal is to apply a discount of 50% to LDZ Capacity Costs for sites that are set as Isolated (utilising the process introduced by UNC Modification 0723).

The remaining 50% payment is to be seen as a Capacity *retention payment* guaranteeing the continued availability of capacity at that site.

2 Governance

Justification for Urgency

Capacity charges which do not reflect actual system usage, are having a material and detrimental impact on business customers, with many large industrial plants ceasing production altogether, and retail businesses being unable to trade while still liable for full transportation charges every month. As this modification will impact transportation charges in a material way for qualifying sites and, to a lesser extent all non-qualifying sites by virtue of the transportation revenue recovery model, a decision to implement would require authority direction. 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.

Urgency was not granted as this Modification was not deemed to have met the Urgency criteria set out in Ofgem's published guidance. Ofgem also referred to their guidance which states that "retrospective application of a Modification may negate the need for its development to follow an urgent or otherwise contracted timetable" and noted that if UNC730 was accepted as Urgent, the 50% reduction would apply to any site which isolated between 1 June and 1 September 2020 irrespective of when that decision may have been made. Therefore, Ofgem do not consider that the effect of the Modification is contingent upon the timing of our decision.

The Ofgem decision letter can be found here: https://www.gasgovernance.co.uk/0730

Requested Next Steps

This modification should be treated as Urgent and proceed as such under a timetable agreed with the Authority.

Based on Ofgem's decision to not grant Urgent status a revised timetable was agreed with the Modification being returned to October's Panel.

3 Why Change?

During the unprecedented COVID-19 pandemic it is important that business consumers are charged fairly for their actual gas network use, otherwise businesses may exit the UK market permanently, leading to an adverse impact on all remaining consumers' costs in the future.

Against the backdrop of the pandemic, a specially convened session of the Uniform Network Code (UNC) Distribution Workgroup was held on 14 April 2020 to consider the likely impacts of COVID-19 on the UNC arrangements and potential mitigating actions which could be taken to provide relief for relevant parties.

This led to a number of Urgent Modifications being brought forward. Whilst Modification 0722, Modification 0723 & Modification 0724 were approved for implementation, Modification 0721 and Modification 0725, which focused on providing relief from Capacity Charges, were both rejected.

Having considered the points set out in the rejection letters for Modification 0721 and Modification 0725 we are proposing this Modification which we believe provides fair and proportionate relief to businesses impacted by COVID-19.

By not changing either the prevailing AQ, (as per Modification 0721), nor the SOQ, (as per Modification 0725), we hope to avoid any unintended impact on the integrity of the AQ's and SOQ's held on the system and avoid any consequential impact on the process that depends on these data items.

By linking our proposal to Modification 0723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period* we hope to address concerns over a suitable verification process by using the arrangements already approved by Ofgem as suitable under Modification 0723.

As noted in the rejection letters for Modification 0721 and Modification 0725 the current isolation process was last subject to a substantive change in 2004 as part of the unbundling of metering provisions from the then network code. At that time, the split in transportation charging between capacity and commodity was 50:50 whereas now the split is 95:05.

We believe it is fair and proportionate to utilise the isolated status of a supply point to enable us to offer partial relief from capacity charges, without requiring a full Supply Point Withdrawal.

If we do nothing, we believe that some consumers will exit the market permanently and therefore cease to use the network entirely. Accordingly, Transporters would not recover any charges from these consumers via Shippers, leaving other consumers worse off as transportation charges would need to be rebalanced/allocated in the longer term i.e. those left would have to pay more.

4 Code Specific Matters

Reference Documents

UNC Transition Document: Part VI (Contains the legal text for Modifications 0722 to 0724 inclusive)

UNC Transportation Principal Document: Section G3.4 (Isolations)

UNC Transportation Principal Document: Section S3 (Invoice Payment)

Knowledge/Skills

None required.

5 Solution

Business Rules

The following Business Rules (BR's) apply to sites utilising the Isolation Status in accordance with Modification UNC723 (Urgent) - Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period.

BR1. All sites Isolated in accordance with UNC723 are automatically in scope of the Capacity Retention modification

BR2. All sites utilising the Isolation Flag under UNC723 to reflect an abnormal load reduction during the relevant COVID-19 period will be paid a rebate equivalent to 50% of the applicable relevant current Capacity Charge to ensure the *retention of capacity* rights during the COVID-19 period. For ease of understanding this rebate will be referred to as the *capacity retention charge* but will not require the introduction of a new charge type for the purposes of administration

BR3. For any sites Isolated under UNC723 following the implementation of this modification any replacement of the normal Capacity Charge with the *capacity retention charge* will apply from the point of Isolation under UNC723 until the earlier of either:

(i) the removal of the Supply Point from the Isolated status or

(ii) the end of the relevant period (COVID-19 period)

[Old business rule 4 deleted] –

~~**BR4.** Any Supply Points set to Isolated Status before the 1st August 2020 under UNC723 will benefit from the replacement of the normal Capacity Charges with the *capacity retention charges* from the 1st June 2020~~

BR4. For any sites already isolated under UNC723 prior to implementation of this modification any replacement of the normal Capacity Charge with the *capacity retention charge* will apply from the date of the implementation of this modification until the earlier of either:

(i) the removal of the Supply Point from the Isolated status or

(ii) the end of the relevant period (COVID-19 period)

For the avoidance of doubt, we are not proposing the introduction of a new capacity charge type instead we are proposing the application of a reduction to existing charges where applicable. For ease of administration, we are happy for this to be in whatever form is the most convenient for the CDSP to administer.

~~For the avoidance of doubt where the CDSP is unable to reasonably identify a qualifying Supply Meter Point, the Shipper will be required to provide sufficient information to determine that this Supply Meter Point is subject to restrictions on operation under COVID Regulations (for example: the nature of business conducted at the site and the geography).~~

BR5: To qualify for relief i.e. capacity retention charge under this modification the relevant Shipper will be required to warrant to the CDSP within 20 Supply Point Business Days, of receipt of a notification from the CDSP of the opening of a relevant claim period, that the relevant Supply Meter Point(s) are subject to the relevant restrictions relating to their operation under the COVID Regulations e.g. the nature of business conducted at the site and the geography.

6 Impacts & Other Considerations

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

None

Consumer Impacts

Some consumers already isolating in accordance with UNC723 would be able to reduce their capacity costs through this mechanism. There would also be a minor impact on other customer costs.

Cross Code Impacts

The Modification has been discussed with the IGT and no corresponding Modification has been raised to date. Although, it was agreed that it is likely there is a IGT UNC impact and any required changes will be progressed via the IGT processes.

EU Code Impacts

None

Central Systems Impacts

The solution requires a 50% rebate of the capacity charge and the CDSP have identified that this will need a short term manual process but it will have no impact on central systems.

Workgroup Impact Assessment

A Workgroup Participant challenged the positive impact on relevant objectives pointing out that this Modification allowed for 100% retention of capacity resulting in other Users being unable to utilise capacity as it was effectively being retained by the registered Shipper, yet only having paid 50% of the capacity charge. Therefore, the affect could be deemed to have a negative impact on relevant objectives – inefficient use of the network (Relevant Objective a).

A Workgroup Participant noted that the UNC is a contract between Transporters and Shippers and does not directly include Consumers as parties and so relief cannot be provided directly to Consumers via the UNC. However by providing relief to Shippers we will see a mixture of direct and indirect benefits passed through to customers e.g. customers on pass-through contracts will benefit directly whilst for others, the benefits will be felt indirectly by enabling such reductions to be factored into commercial models.

A Workgroup Participant pointed out that Allowed Revenue would be recharged to other Shippers as a result of this Modification.

A Workgroup Participant noted that it is true that any under recovery would be recharged but as noted previously if these customers exit the market permanently, and there is a wealth of *prima facia* evidence of market exits occurring as result of COVID now, the long term loss of this capacity will result in higher costs for remaining customers and so any initiative that seeks to help mitigate this long term loss with a short term reduction should be considered to deliver an overall benefit to all customers. A Workgroup Participant commented that there should be very few sites still isolated under Modification 0723 and therefore challenged the impact of this Modification. It was confirmed that only sites that had been isolated through 0723 would be subject to the 50% capacity charge and isolations could not be applied retrospectively.

A Workgroup Participant acknowledged that the removal of retrospection reduces the scope of the benefits in the short term however it was clear that retrospection was not favoured by the Authority and thus reduced the likelihood that this Modification would be approved.

Ofgem noted that, prior to consultation, some form of impact analysis around the materiality of this Modification would be beneficial in supporting Panel Members in their decision making. It was agreed that the analysis period would be post implementation of 0723 (May 2020) and a date towards the end of September 2020. It was also recognised that utilisation of 0723 has been relatively low.

Rough Order of Magnitude (ROM) Assessment

Not Required.

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 shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	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

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 permanently 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 would improve cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and suppliers.

The Workgroup agreed with the two statements above by the Proposer in relation to the standard Relevant Objectives.

Impact of the modification on the Relevant Charging Methodology Objectives:

Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) 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 c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; as this would improve cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and suppliers.

The Workgroup agreed with the statement above by the Proposer in relation to the charging Relevant Objectives.

8 Implementation

We are not proposing a specific implementation date, but it would be beneficial to implement the change as soon as authority direction has been received.

9 Legal Text

Legal text is being provided by Northern Gas Networks and will be published alongside this Modification on the Joint Office website before commencement of the Consultation period. The Proposer will ensure that legal text is considered and will ensure that they are satisfied that it meets the intent of the Solution before publication.

The Workgroup believes that the legal text provided at the time of the last Workgroup meeting on 01 October 2020 largely meets the intent of the Solution. However, there are a couple of minor areas that need to be revised but are not substantial enough to warrant a delay in submitting this Modification to the October 2020 Panel.

Text Commentary

To be provided.

Text

Legal Text will be published at: https://www.gasgovernance.co.uk/0730

10 Consultation 0730

Panel invited representations from interested parties on 15 October 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 10 representations received 3 supported implementation, 1 offered qualified support and 6 were not in support.

Representations were received from the following parties:			
Organisation	**Response**	**Relevant Objectives**	**Key Points**
Cadent	Oppose	a) - neutral d) - negative	• Points out that the Modification, if implemented, would provide for a 50% rebate of Capacity Charges to Shippers for those Supply Points which have been isolated in accordance with Modification UNC0723 (Urgent). • Whilst they supported UNC0723 (Urgent), they recognised the inherent weakness in the Modification in that there was no way to either: - o discern those sites isolated in accordance with UNC0723 (Urgent) from sites which have been physically isolated o validate whether the sites isolated in accordance with UNC0723 (Urgent) actually met the criteria for Relevant Supply Meter Point. • Notes that while for pragmatic purposes they supported UNC0723 (Urgent), as they viewed it would be a temporary arrangement, and are concerned about extending the provisions to form the basis of a list of Supply Points which can benefit from unchecked Capacity Charge reductions. • Believes that it is also unclear how implementing arrangements which would allow a Shipper to retain Network Capacity (for sites which could have access to other forms of Govt financial assistance) at a reduced charge and with the corresponding shortfall being passed

			onto other Shippers could be anything but negative to Relevant Objective d). • Also believes that there is also a further weakness within the Modification as there is no corresponding process/obligation to ensure that any Capacity Charge rebate is passed in full to the relevant supplier and ultimately to the consumer. • Suggests that it is unclear at this point what systems or processes will need to be put in place by the CDSP before implementation could take place. • Has not been able to calculate the potential costs of providing rebates to those sites isolated in accordance with UNC0723 given the inability of the CDSP to identify such cases, and are also unable to predict any future take up of the scheme given a 2nd or possibly 3rd wave of COVID-19. • All costs would though be recovered from the generality of Shippers. • Is satisfied that the legal text delivers the intent of the Modification.
Centrica	Oppose	a) - negative d) - none	• Believes that this Modification allows for 100% retention of capacity resulting in other Users being unable to utilise capacity as it is retained by the registered Shipper, yet only having paid 50% of the capacity charge. The unused capacity will not be available to the gas distribution network to re-allocate. This would be uneconomic and inefficient, especially as it would result in other Users being unable to utilise that spare/unused capacity. • While they are sympathetic to all customers that have been impacted by COVID-19 they believe that any relief from existing obligations should be appropriately applied, in a way that is fair to other network users and would not simply redistribute potential financial distress to other parts of the supply chain or their customers. • Suggests that there is additional complexity in this proposal, as it was confirmed in the Workgroup Report that only sites isolated through Modification UNC0723 (Urgent) would be subject to the 50% capacity charge and isolations could not be applied retrospectively, however currently the CDSP relies on being able to identify sites isolated under UNC0723 (Urgent), and as noted there is currently no way for the CDSP's systems to identify whether a site that is isolated has done so against either the UNC0723U legal text or standard UNC.

			• Suggests that as far as implementation is concerned, no specific lead time would be required. • Notes that as yet the impacts and costs remain unknown.
Energy Intensive Users Group	Support	a) - positive d) - positive	• 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 have reduced energy demands significantly. Government legislation has been a key reason for the reduced product demands (closure of conference centres or reduced activity in hospitality or construction for example). • Supports the 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. • Believes that it should be noted that whilst this Modification may provide some essential support to DM consumers, it is far from the wide-ranging support that was first intended. Many industries in the supply chains are impacted – not just those in certain postcode locations, or specifically referenced businesses in the government legislation. • Also points out that any help and support the Modification can offer would be valued – especially as government restrictions are increasing during the winter months. Without this financial support, many DM customers will close which will require the remaining customers to pay extra to fund the lost allowed revenue. • Supports immediate implementation on the grounds that many industries have been struggling since March 2020 when the impacts of COVID-19 were first being felt so it is vital that support is offered as soon as possible, and would welcome any proposal to backdate the implementation to offer as much assistance as possible to DM consumers (as was intended with all of the COVID-19 Modifications that were raised earlier in the year). • Is satisfied that the legal text delivers the intent of the Modification. • Supports the Modification to reduce the fixed capacity charges for LDZ connected DM sites from the date of implementation, but would urge the implementation to be backdated to offer as much support as possible to businesses that are struggling with the effects of the pandemic.

			• Observes that within the current health & economic climate, 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 due to the delay in the Modification process, some consumers have resumed to some levels of operation, so it is uncertain how much benefit this Modification will currently actually benefit consumers (given the requirement for de-minimus gas consumption to quality for the isolation flag). However, some consumers still have not returned to normal operations, and given the increase in the restrictions, any financial assistance over the winter period may be a big help in ensuring UK businesses can continue operating into the future. • Retains a slight concern over the transparency and timeliness of the process given there is no direct pass-through of the rebate to consumers. However, given the UNC is a contract between Transporters and Shippers, there will need to be a level of trust that Shippers and Suppliers are passing the rebates onto consumers in a prompt and efficient manner. If implemented, a post event report should be written to assess how successful the Modification was?
Gazprom Energy	Support	a) - positive d) - positive	• Points out that the industry came together almost 7 months ago (14th April) in the face of an unprecedented crisis to consider options to help market participants manage the risk arising from the pandemic, noting that the outcome of these discussions was a suite of Modifications (UNC0721 (Urgent) ,UNC0722 (Urgent), UNC0723 (Urgent) and UNC0724 (Urgent)) that were intended, as a package of changes, to provide relief to market participants during the pandemic. Of this initial set of Modifications those that provided relief from Capacity Charges (UNC0721 (Urgent) and UNC725 (Urgent) which followed the rejection of UNC0721 (Urgent)) were ultimately rejected by Ofgem. Whilst the rejection was disappointing, as Ofgem had participated in those discussions, we noted the points made in the rejection letters and raised this Modification with those concerns in mind. • Notes that this Modification seeks to strike a balance between retaining a commitment to capacity (50%) whilst also providing a degree of capacity relief (50%) in relation

			to sites which are forced to close during lockdown periods. • Highlights that originally, they proposed that the Modification was retrospective in nature to address the delay in delivering a solution to the market as a result of the rejection of the previous Modifications. However, it was clear that with the delays in moving the proposals forward and including retrospection in the scope of the Modification both increased its complexity and would also materially increase the risk of Ofgem rejecting the proposal. So, in the face of these growing risks we reluctantly removed retrospection charges noting that it reduced the scope of its application. • In linking their proposal to UNC0723 (Urgent) - Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period, they seek to address concerns over a suitable verification process by using the arrangements already approved by Ofgem as suitable under UNC 0723 (Urgent). As was highlighted in Ofgem's decision for UNC0275 (Urgent), maintaining continued demand from large gas customers will prevent underutilisation of the network and so promote its economic and efficient operation. • Suggests that this Modification completes the suite of changes originally developed by the industry and which as a package seeks to provide some relief for market participants in these unprecedented times. • Notes that circumstances have unfortunately arisen that once again highlight the urgent need for the relief this Modification provides. In line with the close out window for representations the Government has implemented a second national lockdown which will run from the 5th November to the start of December. • If nothing is done, they believe that consumers will continue to exit the market permanently and therefore cease to use the network entirely. Accordingly, Transporters would not recover any charges from these consumers via Shippers, leaving other consumers worse off as Transportation charges would need to be rebalanced/allocated in the longer term i.e. those left would have to pay more. In addition, if more Shippers and Suppliers fail the costs of that failure will also be mutualised against the rest of the market, including via the Supplier of Last Resort (SoLR) process, increasing the commercial pressure on those Shippers and Suppliers remaining.

			• Believes this Modification is positive in respect of: - 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 permanently 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; and Relevant Objective d) *Securing of effective competition*, as this would improve cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and suppliers – notes that the Workgroup agreed with the two statements above in relation to the standard Relevant Objectives. • Has not identified any significant costs associated with this Modification and would wish to see it implemented as soon as reasonably practicable. • Does not have any comments on the legal text, as provided. • Does not believe that the current Gas Market Governance arrangements are agile enough for dealing with crisis situations such as the ongoing pandemic and would advocate the introduction of a more effective process for managing change in the future. To this end we would advocate the introduction of a concept of a "Significant Code Emergency" which could be declared by the Authority and which would allow all relevant changes to be treated as "Self-Governance" Modifications. This approach would still retain the ability for the Authority to call in any decisions they wished but would also provide the industry with a more agile capability to address changes in a timely fashion should either this pandemic endure or in the event of a similar occurrence in the future. It is also noticeable that the current crisis is far from over with the country heading into another national lockdown.
ICoSS	Support	a) - positive d) - positive	• Agrees that the Modification furthers the following relevant objectives: ○ the Modification, by providing relief to those customers who have ceased operation as a result of the COVID-19 pandemic should help avoid their permanent disconnection from the network and so prevent demand destruction. As was highlighted in Ofgem's decision for UNC0275 (Urgent), maintaining continued demand from large gas customers will

			prevent underutilisation of the network and so promote its economic and efficient operation. ○ Improving the cost-reflectivity of the charges incurred by sites that have been isolated under the provisions of UNC0723 (Urgent) will further competition between Shippers. This also applies for Relevant Charging Methodology Objective c). • Anticipates that the need for such relief will increase as the COVID-19 Pandemic progresses, as since the Modification has been raised, we have witnessed more sites having their operations suspended through local lockdowns. • Believes that in order to ensure that the maximum number of customers receives the benefits of the proposal as soon as possible, the Modification should be implemented as soon as possible. • Is of the view that the costs to members in managing this proposal will be minimal and be limited to managing refunds or reductions in customer costs. • Is satisfied that the legal text delivers the intent of the Modification.
Northern Gas Networks	Oppose	a) - negative d) - negative	• Notes that this Modification Proposal looks to introduce capacity retention as a concept into the UNC. This results in capacity being retained, without full charge, and not being released to be available for use by any other Shippers, and as a consequence believes this to be negative against Relevant Objective d) *Securing of effective competition.* • Notes that whilst they would be receiving less revenue for these sites, the cost of maintaining the pipeline would remain the same. This difference, as per licence, would need to be socialised resulting in a potential price change with any shortfall being funded by the rest of the Shipper community. In view of this would be negative against not only Relevant Objective a) *efficient and economic operation of the pipe-line system* but, more specifically, Relevant Charging Methodology Objective a) *compliance with the charging methodology results* in charges which reflect the costs incurred by the licensee in its transportation business. • Supports Authority Direction due to the fact that the Modification is impacting charging and had originally requested urgency.

			• Believes that should Ofgem approve the Modification, it could be implemented once the CDSP have put in place the required system changes to be able to identify applicable sites, and to be able to process the charge. • In noting that the Modification Proposal states that *'For the avoidance of doubt, we are not proposing the introduction of a new capacity charge type instead we are proposing the application of a reduction to existing charges where applicable'*, believes the charge would need be able to be identifiable to Transporters so that they can effectively report and monitor Capacity Charges. • Goes on to suggest that the proposal would reduce the collected revenue whilst not changing the capacity. As a result, there would be an impact on the collected revenue whilst there would be no change to the allowed revenue, which will result in price changes being needed to account for this. • Is satisfied that the legal text delivers the intent of the Modification. • Points out that should the Modification be introduced, there is no guarantee that the savings would filter through the supply chain to benefit the end consumers. It should be noted that there are a number of government schemes currently in place that are targeted at the end consumer. These offer direct financial support (grants etc) for COVID-19 related issues to businesses not only mandated to close, but also businesses where they are permitted to open but there has been an impact to their trading. • In noting that the Modification is directly linked to sites isolated under UNC0723 (Urgent), are aware that there is currently no way for the CDSP's systems to identify whether a site that is isolated has done so against either the UNC0723 (Urgent) legal text or standard UNC. • Notes that the UNC0723 (Urgent) text (TDVI 3) is an 'on paper' isolation where companies are mandated to be closed under the COVID-19 regulations, and these sites are still capable of flowing gas. Standard UNC (TPD G7) isolations have had siteworks take place to ensure they are not capable of flowing gas, and therefore would be sites not applicable for any capacity reduction under this proposal. • Accepts that in theory once a piece of code is implemented, it can therefore be referenced or used by another piece of code, the spirit of UNC0723 (Urgent)

			was to provide an immediate avenue of relief of some of the impacts of COVID-19 to industry in relation to Allocation & Settlement. UNC0723 (Urgent) was therefore drafted in such a way as to avoid requiring CDSP system changes that would delay the implementation. In view of this, as this proposal relies on being able to identify sites isolated under UNC0723 (Urgent), it may be that UNC0730 is not implementable without high cost, and complex, lengthy system changes. This system development could delay, or completely remove, any benefits being gained by the Shipper.
Opus Energy Limited	Oppose	a) - negative d) - negative	• Notes that the capacity charge is levied to secure access to capacity from the network on an enduring long-term basis. • Notes that UNC0730, if approved, would allow for 100% retention in capacity even though only 50% of the capacity charge would have been paid. This would be uneconomic and inefficient, especially as it would result in other Users being unable to utilise that spare/unused capacity. Due to this, they believe it to be negative against Relevant Charging Methodology Objective a) *'Compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business'*. In addition, it could have a potentially distortive impact as there would be no obligation on Shippers to pass through the benefits to consumers while other Shippers would bear the cost of the unrecovered 50% that is socialised. There is also no analysis or impact assessment to support the proposed 50% payment figure or to justify the impact on other Shippers from the socialised costs. For these reasons, we believe this Modification to have a negative impact against Relevant Objective a) *'Efficient and economic operation of the pipe-line system'* and, due to the potential distortive impact on other shippers we have specified 'Negative' against Relevant Objective d*)* *'Securing of effective competition'* and also against Relevant Charging Methodology c) *'The charging methodology facilitates effective competition between gas shippers and between gas suppliers'*. • Understands that relatively few sites have been isolated through UNC0723 (Urgent) and thus would be eligible for the reduced 50% capacity charge and so the aggregate benefits would be very low. • Whilst opposing the proposal, recognises that only a short implementation period would be required on the

			understanding that any unrecovered amounts would be carried forward into future charging years.
ScottishPower	Qualified Support	a) - positive d) - positive	• Notes that many businesses have faced restrictions imposed by the UK Government by the means of Lockdown, which has resulted in business working on reduced hours or ceasing trading which is out of their control. This Modification will look to provide a short-term relief to those customers who be impacted by pandemic and have the Isolation flag set under UNC 0723 (Urgent). • Also points out that within the Modification there is no set measure/obligations to ensure the capacity charge relief would be passed through to the end consumer or an end date to when the relief period would expire. There needs to be clear guidelines set for 1) how long this relief period will last and 2) ensure the relief is lifted as soon as the site is consuming gas again. • Highlights that as the UK continues to have sanctions imposed by the UK Government by means of Lockdown restrictions, limited trading hours or having to close for periods of times, they anticipate the need for long term relief will be required as it is uncertain how long the pandemic will continue. • Wonders whether there are any other long-term solutions that could be explored because of the ongoing impact and issues of the COVID-19 pandemic on the Gas Industry. For example in Electricity there is a long-term vacant process, is this something that could explored for Gas. • Notes implementation would be as soon as reasonably possible to allow for the benefits to reaped by Industry parties that have utilised the isolation flag. • Has not identified any impacts or costs at this time.
SGN	Oppose	a) - negative d) - negative	• Does not believe that the Modification would further the Relevant Objectives that have been set out in the Modification Report. • Suggests that if the Modification is implemented, would allow Shippers to withhold capacity on the network which could otherwise be released to other system users. If capacity is withheld there is a risk that consumers who want to increase their capacity or have a new connection may have to pay to reinforce the network. There is no guarantee that the Shipper benefiting from the ability to withhold the capacity will see their site return to its

			previous levels of demand, therefore the capacity may be needlessly withheld from those wishing to use it. • As a consequence, believes that the Modification would have a negative impact on Relevant Objective a) *efficient and economic operation of the pipeline system* as it would result in other system users not being able to use the unused system capacity. The Modification would also have a negative impact on Relevant Objective d) *securing of effective competition*, as although the Modification considers that the arrangements would be more cost-reflective based on the actual system usage of an isolated site, they consider the withholding of unused capacity to be less cost-reflective, as a proportion of parties' costs would become decoupled from their access to the network. • Also believe that Charging Relevant Objective c) will be negatively impacted as this change will re-distribute costs from one party to another, creating a cross-subsidy whereby the original Shipper retains capacity at a discounted rate, while the rest of the market incurs increased charges without benefit. • Highlights that in addition to the above concerns, they are mindful that the Modification states that it seeks to provide relief to customers adversely impacted by COVID-19 arrangements, however they note there are no obligations on Shippers to pass on the benefits of this Modification to their consumers. As such it is not clear whether this consumer benefit would be realised. • As a final point, observes that the Modification is dependent on the site having previously isolated using by using the process introduced by UNC0723 (Urgent). Relatively few sites have been isolated through UNC0723 (Urgent), therefore we believe that this Modification would deliver minimal benefit to consumers while increasing the market's general risk profile through the creation of less stable, and less cost-reflective, charging arrangements. • Would support an implementation date shortly after an authority decision subject to any CSDP system changes. • Does not foresee any impacts or costs to its internal systems, however they would potentially see an impact to our revenue which would have to be reconciled and recovered at a future date when we set out annual tariffs. • Is satisfied that the legal text delivers the intent of the Modification.

Wales & West Utilities	Oppose	a) - negative d) - negative	• Feels unable to support this Modification as it introduces a right to hold capacity without paying for it. This introduces a new concept into the Uniform Network Code for Distribution Network Operators (DNO). • Believes that introducing a process by which Shippers can reserve capacity at no charge will have a negative effect on Relevant Objective a) *Efficient and economic operation of the pipe-line system* and due to its potential impact on specific reinforcement it will also have a small negative impact on Relevant Objective d) i) *Securing of effective competition between relevant shippers*. • Additionally, feels that it will have negative impact on Relevant Charging Objective a) *that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;* due to the charges levied being less cost reflective than before because the Shipper is not paying for the capacity that it has reserved but not used. • Agrees that the Modification Proposal should be an Authority Direction on the grounds that it changes Transportation Charging arrangements. • Is of the view that implementation can take place once Xoserve have implemented the necessary changes. • Notes that the DNOs will want a way of relatively easily being able to report on, and forecast, the capacity and revenue associated with this discount. This is required to enable DNOs to forecast collected revenue accurately and to meet their licence obligations in respect of ensuring that they do not under or over collect allowed revenue. As the change could be in effect for a significant period of time in that it depends on how long the provisions of Transition Document VI paragraph 4 endure, that in turn depends on the length of the COVID-19 pandemic, a system solution seems the most appropriate approach. • Points out that the implementation of UNC0678A has increased uncertainty regarding charges to DNOs from National Grid for NTS exit capacity as DNOs are now exposed to the Revenue Recovery Charge. This means that setting DNO charges to recover these charges is now more difficult than previously as they are unpredictable and so adding an additional source of uncertainty on the revenue side compounds this problem.

			• The financial impact of the Modification on WWU is extremely difficult to quantify as it depends on two factors: o the number of end consumers that are required to close by law; and o the number of Shippers that make use of the provisions of Transition Document VI paragraph 4 (UNC0723 (Urgent)) to set the Supply Meter Point to isolated. • Is satisfied that the legal text delivers the intent of the Modification whilst noting the legal text makes clear that the Modification only affects the LDZ capacity charge and does not include other capacity charges. • In noting that the Proposer believes that by giving relief from 50% of LDZ capacity charges some end consumers will remain connected to the network when otherwise they would disconnect, WWU realise that everyone would like to pay less, but it is very difficult to establish whether a reduction in transportation charges would, on the margin, be enough to prevent end consumers disconnecting (probably almost entirely through going out of business) so whether this Modification will have the desired impact is a matter of opinion. • Believes that the issues are similar to the issues raised by UNC0728 and alternates that proposed a discount to NTS transportation charges for some end consumers located close to NTS Entry points. • Although the intent of this Modification is to provide relief to some Shippers it will definitely have two redistributive effects. o First, a general impact in that other Shippers will pick up the shortfall in revenue although subject to the operation of lag due to the way the price control works. o Second there will be an impact on DNOs' working capital as collected revenue is likely to be lower and more volatile than forecast and any shortfall in 20/21 will not be collected until 2022/23, thus increasing risk to the DNOs. • Goes on to note that Transportation price setting occurs in the January preceding a regulatory year and is based on a demand snapshot from the start of the preceding December.

			• In order to collect the total allowed revenue for future years, DNOs would need a forecast of the amount of capacity relief being awarded to shippers, by the preceding January. DNOs would then need to reduce System Offtake Quantities (SOQ) by an amount that equates to the estimated loss in revenue. The unit rates would be calculated on this reduced SOQ figure, so that prices were inflated by an appropriate amount that allows recovery of total allowed revenue. A failure to accurately forecast these relief amounts in time for price setting in January would increase the risk of over or under recovery of allowed revenue, thereby increasing the risk of a penalty to DNOs. • Notes that although it might be correct that generally demand is not growing there are areas of networks that do have capacity constraints. In areas where capacity is constrained, a Shipper holding capacity for which it is not paying has no incentive to release it. This means that a customer that wishes to connect to that part of the system may well be charged for reinforcement when it is not in fact required or that if the specific reinforcement passes the Economic Test then that it is funded by generality of customers when it is not in fact required. If Shippers are in an area where they believe there is spare capacity, then they can release capacity for Class 1 and 2 Supply Meter Points in the capacity reduction window and then re-apply as and when they need it again. In April Supply Meter Points that are in Class 3 and 4 will pay LDZ capacity charges based on the Formula Year AQ for 2021/22, this will reflect any reductions in Annual Quantity during calendar year 2020 and so will result in reduced charges for those end consumers that have reduced consumption during calendar year 2020.

Representations were received from the following parties:			
Organisation	**Response**	**Relevant Charging Methodology Objectives**	**Key Points**
Cadent	As above	c) - none	• No specific response provided for the Relevant Charging Methodology Objective – please see table above for more details.

Centrica	As above	c) - negative	• No specific response provided for the Relevant Charging Methodology Objective – please see table above for more details.
Energy Intensive Users Group	As above	c) - positive	• No specific response provided for the Relevant Charging Methodology Objective – please see table above for more details.
Gazprom Energy	As above	c) - none	• No specific response provided for the Relevant Charging Methodology Objective – please see table above for more details.
ICoSS	As above	c) - positive	• Points out that as far as Relevant Charging Methodology Objective c) is concerned, they believe there would be a potentially positive impact as a result of the implementation of the Modification – please see table above for more details.
Northern Gas Networks	As above	a) - negative c) - none	• Points out that as far as Relevant Charging Methodology Objective a) is concerned, they believe there would be a potentially negative impact as a result of the implementation of the Modification – please see table above for more details.
Opus Energy Limited	As above	a) - negative c) - negative	• Points out that as far as Relevant Charging Methodology Objectives a) and c) are concerned, they believe there would be a potentially negative impact as a result of the implementation of the Modification – please see table above for more details.
SGN	As above	c) - negative	• Points out that as far as Relevant Charging Methodology Objective c) is concerned, they believe there would be a potentially negative impact as a result of the implementation of the Modification – please see table above for more details.
ScottishPower	As above	c) - positive	• No specific response provided for the Relevant Charging Methodology Objective – please see table above for more details.
Wales & West Utilities	As above	a) - negative	• Points out that as far as Relevant Charging Methodology Objective a) is concerned, they believe there would be a potentially negative impact as a result of the implementation of the Modification – please see table above for more details.

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 0730 Part 1 and Part 2

Discussion Part 1 - Thursday 19 November 2020

The Panel Chair summarised that this Modification seeks to allow sites (supply points) isolated in accordance with Modification UNC723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period*, to be subject to a rebate of 50% of their LDZ Capacity Costs.

Panel Members considered the 10 representations received, noting that 3 supported implementation, 1 offered qualified support and 6 were not in support.``

Panel Members also noted the Workgroup agreed with the Proposer's recommendation that it would be beneficial to implement the change as soon as Authority direction has been received.

A Panel Member wished to note that this Modification was raised as a direct result of the two previous Modifications rejected by the Authority.

A Panel Member noted that there is some concern as to whether the Modification is implementable. These concerns centre around differentiation between isolations under general UNC Code and those under Modification 0723.

Linkage to Modification 0723

A Panel Member noted that Modification 0723 allows a degree of relief whilst a site is identified as being isolated through use of the isolation flag. This was a timely approach to allow sufficient oversight and enable the relief to be provided. The approach in Modification 0723 is then applied to Modification 0730.

A Panel Member noted that Modification 0723 was deemed to not have anything to mark Modification 0723-related isolations. In the system there is no distinction between 0723- related isolations and any other isolations; there is no way of identifying which is which in the system. Modification 0723 was Urgent, which meant that a significant system change was not appropriate in the timeframe required.

The CDSP representative and a Panel Member gave an update to Panel as follows:

- A small number of sites have isolated under Modification 0723 but very few have indicated whether or not they are no longer isolated under COVID-19.
- The CDSP has started writing to all Shippers with Sites isolated to determined which are under Modification 0723 and which are not. This is not yet complete.
- The normal 'isolation flag' process requires relevant shippers to warrant that certain on-site works have been completed to warrant that the Supply Point has ceased consumption of gas. This allows isolation prior to withdrawal. These are so-called "warranted isolations".
- In contrast, Modifications 0723 and 0730 are relating to sites with abnormal load reduction due to COVID-19.
- It is not currently possible to differentiate the sites which would qualify under Modification 0730 solely by examining whether as site has an isolation flag.

A Panel Member noted that Modification 0723 was deemed fit for purpose in regard to settlement and allocation.

A Panel Member voiced the assumption is that Parties are going to comply with their obligations. Arrangements under Modification 0723 were adequate; therefore they should continue to be adequate for this Modification also. He stated that, in his opinion, no actual relief has been delivered to consumers to date in regard to the effect of the pandemic.

A Panel Member acknowledged that there may be difficulties identifying which isolations are made under Modification 0723 as against standard isolations. If this is the case, there may be considerable delay in implementation for Modification 0730.

A Panel Member clarified that the provision of clear dates should provide the specificity required.

Some Panel Members noted that the COVID-19 Modifications approved to date provided assistance to some Shippers (0726 liquidity relief), Transporters and consumers (improvements to NDM algorithms relating to estimated reads), NTS connected sites (ratchet charges). There has not yet been anything for daily metered sites in the distribution networks. There are a considerable number of people who will be negatively affected by the downturn related to the COVID-19 pandemic and there is a danger of a knock-on effect into domestic consumers potentially not being able to pay their gas bills in the near future.

Some Panel Members noted that direct impacts of this Modification relate to sites leaving the market permanently which will remove capacity and will contribute to costs being passed on to others.

Other Panel Members wished to explore the impact on the level of the consumer bill and that this might increase to cover the cost of the rebates in this Modification.

The CDSP representative gave an update to Panel as follows:

- The issue of the process to be used was raised in Workgroup, who tried identifying the sites that fall under this Modification.
- The CDSP is writing out to Shippers to understand and get confirmation of where the sites are isolated because of COVID-19. The challenge is around the clarity as to which sites qualify for Modification 0730. An additional complication is the second lockdown and also any local/regional tiers or lockdowns.

A Panel Member commented that this is a proactive approach. The system approach to identifying sites under Modification 0723 was rejected due to timing.

The Ofgem representative expressed concern that it is not known who will get the relief from this Modification 0730.

The Ofgem representative expressed concern that he was unclear if the process described by the CDSP representative is actually in the solution for Modification 0730.

A Panel Member agreed that had the time been available to do Modification 0723 differently, it would have been better defined and implemented.

The Ofgem representative commented that Modification 0723 was a pragmatic reaction at that time. However, time has moved on and there remains a question as to which sites qualify for this Modification 0730.

A Panel Member voiced concern that by the time this Modification is implemented there is a chance the issue will have gone away. Maybe some quantification of the financial impact is required prior to submission to Ofgem. This does not appear to be contained in the Final Modification Report.

The Ofgem representative commented that quantification of the financial impact would be very useful for Ofgem. The reason Ofgem can't yet see this is because it is not certain who qualifies for the relief.

A Panel Member noted that if Modification 0730 is approved, there may be a large influx of sites requesting isolation under Modification 0723 as well.

The CDSP representative commented that if Shippers don't provide the confirmation in the timescale requested that the CDSP has requested then these Shippers would not receive the rebate under Modification 0723.

A Panel Member noted that this is then an offline adjustment to apply the rebate where the CDSP has the information from the Shipper.

A Panel Member asked if the current verification process being worked by CDSP required evidence to be presented by the Shipper? If not, then there is no control over the use of the UNC0723 derogation and this is also likely to apply to UNC0730 if, as stated, it relies on the same verification process.

A Panel Member wished to consider alongside the practical issues, that there is a question around the principle of receiving a rebate for the capacity held.

A Panel Member noted that the concept of discounted capacity already exists. The Modification seeks to provide relief in very unusual circumstances with significant financial consequences. They believed this industry has not yet delivered any relief to those customers.

A Panel Member noted that if a Shipper books capacity then the customer goes out of business, the Shipper loses the capacity and no longer pays for it and the Shipper does not have the capacity reserved. When a non-domestic Shipper goes out of business, everyone else picks up the monetary effect of this.

A Panel Member noted that Ofgem has addressed this in their rejection letters in Modification 0721 etc.

The Independent UNC Modification Panel Chair asked if there was general agreement in the principle that this Modification should go ahead? She summarised that it appeared that one constituency believes it should and another has concerns around the Modification furthering charging Relevant Objective a). In addition, there may be differences in views between domestic and non-domestic constituencies.

A brief discussion ensued regarding 'summer gas', where capacity was booked which was only available in the summer when the system was not under the same stress as in winter.

The Ofgem representative asked how these implementation issues for Modification 0730 could be resolved.

Discussion ensued covering the option of sending the Modification back to Workgroup for further analysis, utilising a more automated systems change to separate those sites who are isolated under Modification 0723 and those isolated separately (though this would not be a quick option). The time frame for a system change might be a minimum of 6 months, potentially 12 months.

A Panel Member noted that a dedicated flag in the system would not necessarily improve the situation. Setting out the provisions of the CDSP exercise would be an improvement. However, there is the possible consequence at the moment that a Shipper may not respond to the CDSP letters? There is no mandate in Code to respond.

> *For the avoidance of doubt where the CDSP is unable to reasonably identify a qualifying Supply Meter Point, the Shipper will be required to provide sufficient information to determine that this Supply Meter Point is subject to restrictions on operation under COVID Regulations (for example: the nature of business conducted at the site and the geography).*

The above quote is taken from page 6 of this document and is a "for the avoidance of doubt" statement from Section 5 (Solution). It does not mandate the Shipper under Code to respond to the CDSP.

A Panel Member noted that previously the impact of Modifications was not always fully available prior to sending a Modification to the Authority. For commercially sensitive information, e.g. 'shorthaul', Ofgem did an information request.

A Panel Member suggested that establishing the scope of the Modification may help provide a sense of who would qualify. However, the time required would potentially mean the Modification times out for those businesses affected by the Pandemic. There is some significant concern that refining the Modification is not appropriate given the circumstances.

The suggestion of tasking the CDSP to write a piece to go alongside this report to send to Ofgem was again discussed.

The CDSP representative agreed that the CDSP could set out the process it would follow and would include the number of isolations thought to be under Modification 0723 to date (as quoted at PAC on 10 November 2020) based on the method used by the Shipper when requesting isolation. Panel Members welcomed this suggestion.

A Panel Member suggested they themselves could seek input from ICOSS and potentially contribute an aggregated figure from ICOSS members. Panel Members welcomed this suggestion as well.

Panel Members agreed to adjourn until an extraordinary Panel Meeting to be convened on Friday 27 November 2020. The Panel Secretary suggested that any Panel Member who wished to submit comments or suggested edits to the Panel Discussion so far, to submit these by close of play Tuesday 24 November in track changed format.

Discussion Part 2 - Friday 27 November 2020

The Panel Chair recapped on where discussions had ended up after the previous Panel meeting on 19 December 2020. Panel Members noted that several pieces of text had been requested to be inserted into this Final Modification Report section 11 after the Panel meeting and were prefaced in all cases by "Post Meeting Update". These need to be agreed by Panel Members before being accepted into the document. This will be addressed on 17 December 2020.

Distribution Workgroup discussions on 26 November 2020 highlighted that there is a need for a varied Modification to ensure the Legal Text fully covers the process required to implement the Modification 0730.

The CDSP representative noted that a paper was discussed at Distribution Workgroup covering CDSP's suggested solution with discussion of the potential scenarios which may arise.

Panel Members discussed the need for Legal Text and the Modification to match. Identifying the sites requires a detailed process to be performed by the CDSP. A Joint Office representative (chair of Distribution Workgroup) outlined the weakness where the process is not yet set out in the Modification robustly enough to cover the contractual requirements for the CDSP mechanism to have the full weight needed.

A Panel Member asserted that the Modification should be updated with a statement which covers the "for the avoidance of doubt" statement.

The Proposer noted that the Draft Modification Report went out to consultation with the "for the avoidance of doubt" statement in it so he expressed concern that the process issues raised appear to be late. As Proposer he noted that he put forward a Business Rule to meet the perceived need and then questioned if this had been in the Modification, would this have potentially changed the consultation results?

The Ofgem representative wished to highlight importance of the CDSP exercise to establish who qualifies and the financial values associated with the impact of the Modification. He asked whether the CDSP information would come to the Authority?

The CDSP representative confirmed that their analysis for Modification 0730 will be included as an Appendix to this document. In this paper, it shows what has been done to date and that related to Modification 0723 however this information does not yet show the exact number of sites and the exact financial impact. This process is not yet complete.

Discussion centred then around when this would be finished, considering additional complications with ongoing lockdowns, changing tiers and local lockdowns.

The Ofgem representative stated that it might not be perfect data, however from what he had seen, noting the short notice submission, it showed a very uncertain picture which will make it rather difficult to make a robust assessment of this Modification. He requested a snapshot in time, for example, on a certain date, the following sites will qualify which translates in to £x monetary value.

There was a formal action noted within the meeting minutes for the CDSP to supply the data requested.

The Head of the Joint Office suggested a plan where the Proposer works with the Joint Office to raise a variation, and at an extra Workgroup meeting on 08 December in the afternoon which the Joint office can support, the Workgroup can review the variation and any analysis available at that point from the CDSP with a final Workgroup Report for December Panel to determine if this then requires further consultation.

The Proposer expressed concern at the slow progress and the delays to the Modification. He noted that he had hoped the ICOSS data would be available for this meeting on 27 November but as events progressed at Distribution Workgroup yesterday, he felt is wasn't appropriate to push for the little data available at that time. He agreed to raise a Variation which converts the "for the avoidance of doubt statement" into a business rule which points to the CDSP process. The Legal Text can be updated to meet the business rule.

The Independent UNC Modification Panel Chair highlighted the need expressed by Ofgem for a reasonable amount of data to assess this Modification against. Without this it appeared to her that the regulator may find it difficult to progress the Modification.

The Ofgem representative noted that Panel will also need to consider the impact assessment data prior to its decision making.

A Panel Member representing consumers stated that having to go back to customers and say this is still being discussed is disappointing. Additionally, he reminded Panel that the energy industry is more than just domestic consumers. All consumers need protection not just domestic consumers, a more rounded approach to the energy industry is required.

The Ofgem representative stated that Ofgem is not only interested in domestic consumers and that the data required needs to show what the volumes and financial impact of the Modification are.

Determination

Panel Members voted unanimously (14 votes out of 14) that new issues were identified and therefore Modification 0730 returned to Workgroup with a report back to 17 December Panel.

12 Workgroup Supplemental Report 0730

Summary of the Workgroup meeting held on 08 December 2020.

Following the Extraordinary Panel Meeting on 27 November 2020, Modification 0730 Workgroup was reconvened to consider two items of business relating to the proposal:

- The materiality of the Modification, to the extent that whatever capacity payments are rebated, any monies returned would be included and recovered in a subsequent revenue period, and
- A Variation Request proposed in order to codify the process that the CDSP would be adopting to determine the list of eligible sites.

In terms of the former matter, the CDSP provided an update to its response to Panel Action PAN 11/03, which included an estimate of the capacity revenue that could be subject of the rebate. Given the limited information to work with, the CDSP proved a range of values from £108 to potentially up to £28,000 per month, depending on assumptions made. The CDSP advised that an updated Panel Action Paper would be provided to accompany this Report and underlined that the need to take due consideration of all the caveats set out in the paper.

In terms of the second matter, the Proposer provided a Variation Request that sought to provide more clarity in terms of the process to be adopted for determining sites eligible for the rebate. In essence, the CDSP would provide each shipper with a list of sites isolated during the qualifying period and the shipper would have 20 Supply Point Systems Business Days to confirm that they are eligible for the rebate.

The view of the Workgroup was that the proposed variation provided sufficient clarity and that the codification of the process would be beneficial to all parties, as it establishes explicitly the rights and obligations of those involved. Also reviewed by the Workgroup was the Legal Text associated with the variation.

The consensual view of the Workgroup was the variation should be adopted as it was appropriate and necessary to codify this process. Additionally, the Workgroup agreed that the accompanying Legal Text accurately reflected the proposed new Business Rule.

When questioned on the materiality of the variation, the consensual view of Workgroup was that the amendment should be classed as material but requested that any further consultation should be kept to a minimum and suggested that the **Panel consider a consultation period of 5 days**.

13 Consultation 0730V

Panel invited representations from interested parties on 17 December 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 2 representations received 2 were not in support.

Representations were received from the following parties:			
Organisation	**Response**	**Relevant Objectives**	**Key Points**
Cadent	Oppose	a) - neutral d) -negative	• Notes the Modification, if implemented, would provide for a 50% rebate of Capacity Charges to Shippers for those Supply Points which have been isolated in accordance with Modification 0723. • Points out as stated in the previous Modification 0730 representation (as detailed on Page 10 above), Cadent raised concerns that it would not necessarily be able to discern or validate which Supply Points Shippers were actually entitled to include within the arrangements. This has been mitigated, to an extent, by a business rule which includes the requirement for a Shipper warrant although concerns around the correct use of the warrant remain. • Has an additional concern regarding the retention of full capacity, along with a 50% reduction in charges, which would need to be socialised to the generality of Shippers

			and provides a negative to Relevant Objective D. This still stands and has not been addressed within Modification 0730V. • Also notes that another Cadent concern regarding the inherent weakness within the Modification to actually ensure that any Capacity Charge rebate is passed in full to the relevant supplier and ultimately to the end user, has also not been addressed. • Proposes that the implementation would need to be in-line with the CDSP having the required processes in place. • Reiterates that its previous comment in the Modification 0730 representation still stands, (as detailed in Page 10 above), in that it is difficult to assess the impact or cost to Cadent, given the difficulties in understanding or forecasting which Supply Points may be eligible for a 50% rebate, especially given the latest national lockdown position. • Is satisfied that the legal text meets the intent of the Modification. • Has not identified any errors or omissions.
Northern Gas Networks	Oppose	a) -negative d) -negative	• Believes this Modification proposal looks to introduce capacity retention as a concept into the Uniform Network Code (UNC). This results in capacity being retained, without full charge, and not being released to be available for use by any other Shippers and their consumers. Northern Gas Networks (NGN) believes this to be negative against Relevant Objective (d), securing of effective competition • Notes that whilst NGN would be receiving less revenue for these sites, the cost of maintaining the pipeline would remain the same. This difference, as per NGN's licence, would need to be socialised resulting in a potential price change with any shortfall being funded by the rest of the Shipper community. In view of this, NGN believes it to be negative against not only Relevant Objective (a), efficient and economic operation of the pipe-line system but, more specifically, Relevant Charging Methodology Objective (a), compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business. • Agrees that this should be decided on through Authority Direction due to the fact this Modification is impacting charging and had originally requested urgency.

			• Proposes that should Ofgem approve the Modification, it could be implemented once the CDSP has put in place the methods to be able to identify applicable sites, and to be able to process the charge. • Notes that whilst the Modification proposal states that; ”for the avoidance of doubt, we [Gazprom] are not proposing the introduction of a new capacity charge type instead we are proposing the application of a reduction to existing charges where applicable”, the charge would need be able to be identifiable to transporters so that they can effectively report and monitor capacity and the associated charges. • Believes that this proposal would reduce the collected revenue whilst not changing the capacity. As a result, there would be an impact on collected revenue with no change to the allowed revenue, which will result in price changes being needed to account for this. • Points out that as all of the devolved nations have placed their relevant countries into new national lockdowns, there are a large number of sites that now qualify to apply to be isolated under Modification 0723, which would then result in them being eligible to apply for the reduced capacity charge under this Modification 0730V. This was not considered for the assessment that was carried out by the CDSP on the existing sites and the scale is impossible to predict. • Believes that the legal text provided would deliver the Solution set out in the Modification. • Suggests, should this Modification be introduced, there is no guarantee that the savings would filter through the supply chain to benefit the end consumers. It should be noted that there are a number of government schemes currently in place that are targeted at the end consumer. These offer direct financial support (grants etc) for COVID-19 related issues to businesses not only mandated to close, but also businesses where they are permitted to open but there has been an impact to their trading. • Whilst NGN accepts that in theory once a piece of code is implemented, it can therefore be referenced or used by another piece of code, the spirit of Modification 0723 (Urgent) was to provide an immediate avenue of relief of some of the impacts of COVID-19 to industry in relation to Allocation & Settlement without the need for system changes or having impact on capacity charges.

			• As the Proposer of Modification 0723 (Urgent), NGN can confirm that this was therefore drafted in such a way as to avoid requiring the CDSP system changes that would delay the implementation. This means that there is currently no way for the CDSP to accurately assess materiality. Should Modification 0730V be implemented, additional sites may apply to be isolated under Modification 0723 to take advantage of the capacity reduction offered in Modification 0730V. This would dramatically increase the materiality of this Modification 0730V proposal, especially in light of the fact that currently all devolved nations have placed their countries into a national lockdown, with uncertainty as to when some or all businesses will no longer be mandated to remain closed.

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.

14 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0730V would allow sites (supply points) isolated in accordance with Modification UNC723 (Urgent) - Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period to be subject to a rebate of 50% of their LDZ Capacity Costs.

Panel Members noted the process which this Modification had undergone and that the last step had been further consultation on the varied Modification 0730V. Therefore, responses to the consultation needed to be taken into account alongside the original material and the original (first) consultation responses. Panel Members noted the previous Panel Discussions on 19 November and then again on 27 November 2020 followed by Workgroup additional input, the varied Modification being presented to Panel on 17 December 2020 and the subsequent short consultation which followed thereafter, closing out on 12 January 2021.

Panel Members considered the representations made noting that, of the 2 representations received, both were not in support. Panel Members noted these were both received from DNs.

Some Panel Members agreed with some respondents to the first consultation and the Proposer that this Modification seeks to strike a balance between retaining a commitment to capacity (50%) whilst also providing a degree of capacity relief (50%) in relation to sites which are forced to close during lockdown periods.

Panel Members noted there were several points to discuss as raised by various Parties:

- Despite the introduction of another Business Rule (5) in the Varied modification there remain concerns around the correct use of the warrant to identify the eligible Supply Points.
- Additional sites are eligible with current national lockdown (January 2021) and any others until implementation – this is impossible to predict and therefore equally impossible to quantify the materiality thereof.

- There remains uncertainty as to whether the positive impacts will be passed down the line from Shippers to any other party, though noting that other schemes exist.
- Modification 0723 (Urgent) was never proposed to act as a springboard for other Modifications, though this is an accepted tenet of the UNC.
- DM consumers can receive some support in terms of a reduction in their fixed capacity charges for LDZ connected DM sites.
- Support for Modification 0723 (Urgent) was tempered by the expected short term nature of the pandemic, and concerns were noted at the time around inherent weaknesses in being able to robustly identify eligible sites.

  The Proposer commented that the Variation specifically addresses the eligibility checking requirement. There is some concern that the Variation has merely provided a delay in implementing the Modification which has added undue delay to supporting these sites.

  Another Panel Member agreed that the Variation did address the eligibility checking concerns but commented that the delay was appropriate, given the need for the Code to be robust.
- Panel Members discussed the potential for a post implementation report to assess how successful this modification was? Panel Members agreed that such a report may contain confidential information and therefore could be done by Ofgem. Panel Members would appreciate an indication of the success or otherwise of the Modification, if implemented.

A Panel Member who was unable to attend, sent his views via his alternate:

  - Eligible customers think they deserve a reduction in charges as not using the capacity at the current time.
  - Concerns that any reduction will be redistributed to others.
  - Concern from Transporters that they need to continue to support but won’t get revenue for those sites.
  - Concern as to whether those no longer eligible will be promptly removed.

Some Panel Members noted that during the period since the Modification was raised, the periods contributing to materiality (and which sites qualify) has fluctuated; the country is now in Lockdown 3 which has affected the materiality.

Some Panel Members noted that the continued effect of Lockdowns increases the need for the Modification. Some parties have sent confidential information to Ofgem regarding number of sites eligible.

Some Panel Members agreed with the point made above regarding redistribution of the costs which would in effect be a cross subsidy.

Some Panel Members noted that the eligible beneficiaries of this Modification appear to be large non-domestic customers. They also agreed with all four of the comments above from the Panel Member not present.

Some Panel Members expressed concern that the governance and procedures available make it rather difficult to deal with the unique circumstances in which we find ourselves. This Modification attempts to address the extreme circumstances exacerbating the already difficult market for those larger businesses consuming energy (gas and electricity). As such the Modification should be implemented as soon as possible.

Consideration of the Relevant Objectives

Panel Members noted that whilst the Modification had previously been considered at Panel, the Relevant Objectives had not previously been examined by Panel in any direct way. Therefore, consideration is given here taking into account all input, not just the most recent Modification 0730V consultation.

Panel Members noted that according to the Proposer, two standard Relevant Objectives were indicated to be positively impacted by this Modification, namely standard Relevant Objectives a) and d). These are considered first, followed later in this section by the charging Relevant Objectives.

a) Efficient and economic operation of the pipe-line system

Some Panel Members agreed with the Proposer and some original consultation respondents that implementation would have a positive impact because:

- The timely and short-term relief offered by this Modification should help to avoid non-domestic sites permanently 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.

Some Panel Members disagreed and believed there would be a negative impact on Relevant Objective a) because:

- The cost of maintaining the pipeline would remain whilst the revenue from capacity would decrease so that any shortfall would need to be funded by the rest of the Shipper community.
- There does not appear to be any substantiation of the risk of disconnection.

d) Securing of effective competition between Shippers and/or Suppliers

Panel Members considered relevant objective d) agreeing that implementation would have a positive impact because:

- This would improve cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and suppliers.

Some Panel Members disagreed because:

- Socialisation of the costs which would not be paid as a result of the implementation of this Modification even after Variation would still need to be undertaken which creates a cross-subsidy and is negative for Relevant Objective d).
- There is no clear way of ensuring the rebate is passed on to reach Suppliers or End Consumers.
- Capacity retention without full charge does not allow in this case for the capacity to be made available should others wish to use it. This may result in payment for unnecessary reinforcement if additional capacity must be bought, which would appear to be negative for Relevant Objective d).

Consideration of the Relevant Charging Methodology Objectives

Panel Members noted that according to the Proposer, only one of the charging Relevant Objectives were indicated to be positively impacted by this Modification, namely Relevant Objective c). In addition, one of the 0730V consultation respondents believe charging Relevant Objective a) was also impacted.

a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;

Some Panel Members agreed with one of the consultation respondents and believed this Charging Relevant Objective a) is negatively impacted because:

- The cost of maintaining the pipeline would remain whilst the revenue from capacity would decrease so that any shortfall would need to be funded by the rest of the Shipper community.

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers

Panel Members agreed that the discussions captured above under standard Relevant Objective d) would apply for charging Relevant Objective c).

Determinations

Panel Members voted unanimously that Modification 0730V does not have an SCR impact.

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

Panel Members voted with 6 votes in favour (out of a possible 13), and therefore did not agree to recommend implementation of Modification 0730V.

15 Recommendations

Panel Recommendation

Panel Members recommended:

- that Modification 0730V should not be implemented.