UNC Workgroup Report

At what stage is this document in the process?

UNC 0730:

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 Workgroup recommends that this modification should be subject to self-governance

The Panel will consider this Workgroup Report on 15 October 2020. The Panel will consider the recommendations and determine the appropriate next steps.

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	16 October 2020
Consultation Close-out for representations	05 November 2020
Final Modification Report available for Panel	11 November 2020
Modification Panel decision	19 November 2020

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).

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

Standard Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objectives	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

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.

Charging Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objectives (Charging Proposals)	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 here https://www.gasgovernance.co.uk/0730

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This Modification should proceed to consultation.