

Representation - Modification UNC 0725 (Urgent)

Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19

Responses invited by: **5pm on 13 May 2020**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Hilary Chapman
Organisation:	Scotland Gas Networks and Southern Gas Networks
Date of Representation:	13 May 2020
Support or oppose implementation?	0725: Oppose
Relevant Objective:	a) Negative d) Negative

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

SGN opposes this modification as it negatively impacts relevant objectives¹ a) *efficient and economic operation of the pipe-line system* and d) *securing of effective competition between relevant shippers [and] suppliers*. The modification has the effect of sterilising capacity and breaks the existing link between the reservation and payment for capacity, creating a distributional subsidy between users.

SGN acknowledges the significant impact of the COVID-19 pandemic upon gas industry participants, particularly in relation to lockdown² arrangements which implemented restrictions upon population mobility, accompanied by government instructions to close or re-purpose certain categories of premises. As a result, the otherwise expected demand of industrial sites may have significantly and unexpectedly decreased.

There are similarities between this modification and modification 0275³ *Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage*, raised in 2009 as a result of the economic crash which created similar unexpected reductions in consumption and therefore capacity requirements. However, we note a key difference between the proposals as 0725 requires that the original capacity is reserved for the user to re-utilise from 1st October, while 0275 had no such mechanism. This creates three significant issues:

Sterilisation of Capacity

In the interim period, the rescinded capacity is unavailable for any other users, despite not being subject to a formal booking and therefore not being utilised. This contravenes the UNC capacity management procedures and could result in network access requests being denied and reinforcement being recommended, despite the capacity being available at the time. There is also the risk that the requirement for the original (higher) capacity may not subsequently re-materialise, however GDNs would still be required to reserve it during the interim period.

¹ Standard UNC Relevant Objectives as defined in Standard Special Condition A11(24)(a) of the Gas Transporter licence

² For the purposes of this response, where we refer to 'lockdown' or 'COVID-19 period' we refer to the restrictions enacted through the Coronavirus Act 2020, Schedule 22 declaration issued in March 2020 and the restrictions placed upon businesses and population enacted through the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020, which both came into force on 26th March 2020.

³ <https://www.gasgovernance.co.uk/0275>

Undermining Charging Principles

Under usual processes, peak SOQ bookings apply throughout the year and define an annual capacity requirement, even in the case of industrial loads with significant seasonal fluctuations. The cost of providing this peak capacity is also annualised and spread throughout the year. This establishes the principle that peak capacity should be retained and charged at an annual level. Modification 0725 contradicts this principle by amending SOQ bookings for the summer period, before returning to the original level – the latter creating an acknowledgement that this is the true annual peak which should be applied throughout the period.

Distributional Implications for NDM and Domestic Customers

During the interim period of capacity reduction, no transportation capacity charges will be applied in respect of the reserved capacity. By reserving the capacity but recovering the associated transportation charges from the wider customer base⁴, there is a disconnect between the user of the capacity and the funding arrangements. This creates an economic and distributional cross-subsidy, with the NDM and domestic sector funding a greater proportion of capacity being utilised by industrial and commercial customers.

For the above reasons, while SGN supported 0275, we are unable to support 0725.

Due to the short timescales, SGN has not been able to undertake any of the detailed analysis to quantify the impact of this modification that we would normally undertake. Furthermore, the modification does not provide any data to establish the likely take up of the proposed solution. Accordingly, the impact of this modification is not quantified and will not be fully recognised for some time after their introduction. If this modification has a significant impact on transportation revenues it may be necessary to accommodate this through a mid-year tariff review.

We also note the recent implementation of UNC modification 0724 *Amendment to Ratchet charges during COVID-19 period*⁵ and would highlight that any potential conflicts will need to be identified and managed.

SGN's key priorities in this period are to ensure that our customer needs are met, particularly those customers in vulnerable circumstances; to maintain secure, safe and reliable supplies; and ensure the safety of our customers and workforce. In ensuring that we deliver the first priority of meeting customer needs we recognise that it may be important to support the alleviation of operational market challenges to safeguard our customers. However, in developing a coordinated approach, it is important that industry aligns with the wider government COVID-19 Response Strategy, articulated through the clear expectations⁶ expressed by Ofgem. Central government has introduced a large number of packages to support industry and consumers in these challenging times and it is important that any modifications are aligned to, and complementary with, this approach. This alignment with central government strategy is particularly important where urgent modifications could have a substantial impact on transportation revenues, as such actions could preclude networks from taking action at a later date should it be requested by Ofgem. SGN is committed to supporting these efforts and will coordinate with industry wherever possible. However, we must prioritise our involvement to those areas of most significance or needing immediate relief and we are dependent upon the guidance of central government and Ofgem. A holistic view of the most appropriate measures must be taken to ensure we, and industry, are promoting the most economically sound proposals as part of the wider government response.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Given the intention for the modifications to provide rapid and pragmatic relief from COVID-19 related challenges, we welcome Ofgem's intention to issue a decision on 22nd May 2020 and anticipate implementation will follow as soon as reasonably practicable.

⁴ Through the two-year lag K allocation

⁵ <https://www.gasgovernance.co.uk/0724>

⁶ Ofgem have published clear guidance to industry participants through letters and prioritisation <https://www.ofgem.gov.uk/publications-and-updates/coronavirus-covid-19-links-key-guidelines-and-industry-led-commitments>

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

As above, the modifications have progressed according to an urgent timetable and as such impacts cannot be fully assessed.

We anticipate a significant impact upon transportation revenue which, if implemented, could impact our own liquidity arrangements and may not be recovered for a two year period or could be subject to a mid-year tariff review.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Legal text has been drafted as transitional text to compliment the otherwise normal application of UNC. Given the urgent modification timescales, the text reflects the business rules at a high, rather than detailed level. As such we are satisfied that the text delivers the intent of the solutions, however acknowledge that further activity beyond that defined in the text may be required to ensure successful implementation and operation of the proposed measures.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

As above, the modification has been developed according to an urgent timescale and as such is drafted at a high, rather than detailed, level. Further activities may be required to ensure successful application of the proposal in addition to defining smooth exit arrangements.

Please provide below any additional analysis or information to support your representation

As above, due to the short development timescales SGN has not been able to undertake any of the detailed analysis to quantify the impacts of this modification which we would normally undertake. Furthermore, the modification does not provide any data to establish the likely take up of the proposed solution. As such it has not been possible to undertake analysis to quantify the impact of this modification and potential impacts will not be fully recognised for some time after implementation.