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Your Reference: UNC Modification Proposal 0725 (Urgent)

UNC Modification Proposal 0725 (Urgent) - Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal which Cadent does not support.

**Do you support or oppose implementation?**

Oppose

**Relevant Objective:**

- a) Negative
- d) Negative

**Reason for support/opposition:**

Cadent recognises the serious impact that Covid-19 is having on the energy industry and its customers and supports the need for all parties, shippers, suppliers, transporters, regulators and government to collaborate effectively to mitigate the most serious impacts. The intent of Modification 0725 (Urgent) is to enable the relevant Shipper User to submit revised SOQs to the CDSP during a temporary window up until 30 September 2020, for Class 1 and Class 2 Daily Metered (DM) Supply Points. The SOQs would then revert to their 1 May 2020 levels with effect 1 October 2020. The aim of the modification is to ensure transportation charges are reflective of a Supply Points actual current use.

However, there are a number of areas, which, due to the very limited discussion on this proposal, have not been fully assessed or analysed. We therefore have serious concerns that this proposal will

lead to unquantified consequences in relation to transportation charges and distributional effects on gas shippers with different customer portfolio.

Transportation charges have been set for the coming year in April 2020 and have been calculated using current DM SOQs. Were the Capacity Reduction window of Oct – Jan to be brought forward then there could be a fall in transportation revenues. This would increase the risk of under recovery against allowed revenue, which may trigger the need for a mid-year price review leading to distributional, as well as charging volatility impacts, across the shipper community.

We share the same concerns with this modification which we raised in relation to Modification 0721 (Urgent). If implemented, this modification may simply transfer risk to other code parties with different portfolios, which cannot be in the best interests of the industry as a whole or, ultimately, customers.

Whilst it is intimated in sections of the modification, we note that within the solution section (from which the legal text is derived), this modification (as opposed to 0721) does not explicitly limit the temporary reduction in SOQ to those Class 1 and Class 2 Supply Points which have experienced unexpected changes in consumption of gas due solely to Covid-19. On this basis Shipper Users could take the opportunity to reduce the SOQ of all their Supply Points regardless of the cause of such reduction. So sites which are temperature sensitive or may be down for planned maintenance activities for example could make inappropriate use of the transitional reduction window.

We also note that there does not appear to be a limitation on the number of times a Shipper can reduce its SOQ. We are therefore concerned with the interaction between this modification and 0724. If this modification were to be implemented, then in theory the Shipper could make multiple SOQ reductions (post 1 June) every time the SOQ were to ratchet. Essentially, a Shipper could attempt to 'profile' their SOQ rather than have a consistent one for the period up to 1 Oct 2020.

Whilst we understand the rationale of the modification targeting the SOQ (as this will give the largest reduction i.e the 'capacity' element of the transportation charge), we do have concerns that by effectively 'commoditising' capacity it moves away from the purpose of the SOQ in charging methodologies which is to recover the cost of peak capacity requirements of a given supply point.

## Implementation

Implementation of the modification could be as soon as authority approval is given.

## Impacts and Costs

Our main concern is that there are likely to be impacts and costs (on all parties) which, due to the speed at which this modification has been developed and issued to consultation, cannot be adequately addressed or mitigated against.

## Legal Text

Nothing to add.

## Are there any errors or omissions in this Modification Report that you think should be taken into account?

The modification states that "the revised Registered DM Supply Point Capacity must be equal or greater than the peak daily Metered Volume calculated for that site from 1 April 2020 to the date of application or 31 May 2020, **whichever is the earlier**".

It is unclear whether this is a drafting error or is the proposers desired solution. The drafting would allow a Shipper to amend an SOQ at any date between 1 June and 30 September using the maximum SOQ between 1 April and 31 May, and not the maximum SOQ between 1 June and the date of application. The requested SOQ could therefore be lower than the most recent gas usage.

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

Nothing further to add.

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 07884 113385 ([andy.clasper@cadentgas.com](mailto:andy.clasper@cadentgas.com)) should you require any further information.

Yours sincerely,

Andy Clasper