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Your Reference: UNC Modification Proposal 0721(Urgent)

UNC Modification Proposal 0721(Urgent) - Shipper submitted AQ Corrections 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
- f) 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 effects. The intent of Modification 0721 (Urgent) is to allow Shippers to amend the Annual Quantity (AQ) of Supply Points within their EUC 2-9 portfolio (excluding 'Isolated' Supply Points). The aim of this is to ensure that the AQ is representative of the actual quantity of gas being consumed, which will subsequently feed through into the allocations process and ultimately unidentified-gas (UIG).

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 unintended and, as yet, unquantified consequences in relation to transportation charges and distributional effects on gas shippers with different customer portfolios.

## Transportation charges

We note the modification proposal does not refer to any implications for transportation charges and the consequential impact this may have on industry parties. It is therefore unclear whether the intent is to complement modification proposal 0723 (Isolation flag) in addressing energy allocation and UIG issues or whether there are wider implications arising in relation to transportation. If the latter is intended then further dialogue and analysis is required to understand what this may mean for transporters and shippers and any implications this may have for competition in the market.

## Impact on industry parties resulting from Formula Year AQ (FYAQ) amendments

Post Nexus, the AQ became known as the 'rolling AQ' as Valid Meter Readings submitted by a Shipper User had the effect of amending the AQ within year. The Formula AQ (FYAQ) was devised as a methodology to ensure that a stable AQ could be utilised by Transporters when setting transportation charges to ensure that charges to Shipper Users were known ahead of the charging year.

One impact of this modification would be the amendment of each Supply Point FYAQ where the Shipper has amended the AQ. Therefore, if AQs were reduced significantly there could be a fall in transportation revenues that may trigger the need for a mid-year price review with distributional, as well as charging volatility impacts, across the shipper community. We have not seen any analysis to gauge the impact of this on either Transporters or the consequential impacts on Shippers and we are concerned that, 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.

## Qualification criteria

The modification is not clear in relation to the qualification criteria for being able to change AQ for reasons associated with Covid-19, although we note the legal text refers briefly to providing "reasonable evidence" to demonstrate the impact of Covid-19 on gas consumption. It is not clear whether provision of this "reasonable evidence" is a pre-requisite ahead of the AQ being amended and or what the process of validation is (or indeed who should carry out such validation) or whether this evidence can follow any AQ amendments. This could be particularly important if there is large uptake of the modification. To ensure the process is managed effectively, and to avoid distorting competition, there would be a need for clear evidence of a Covid-19 related reason before any AQ reduction could be processed, and clarification on the position if any change in gas consumption was due to multiple factors, one of which was Covid-19. This is not currently a requirement of the modification.

## Reverting to the previous AQ post Covid-19

Whilst the modification does acknowledge (within Section 3 'Why Change?') that following the Covid-19 period Shippers should be able to amend the AQ back to a more representative consumption, this has not been explicitly included within the Solution section and is not included within the Legal Text. There is therefore no incentive on Shippers to address this in a timely manner, which could lead to misallocations and UIG issues. We believe there needs to be greater clarity on how industry will manage and monitor this post Covid-19 period.

Whilst we are supportive of the industry pulling together to identify solutions during the current situation, there are far too many unanswered questions and concerns on unintended consequences of this modification for us to provide support at present.

## Implementation

Implementation of the modification could be immediate following approval by the Authority.

## Impacts and Costs

As mentioned above, our main concern is that there are likely to be unintended 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

It is clear that the intent of this (and the three associated Urgent modifications) is to address the immediate (circa 3 months?) issues of 'demand destruction' at Industrial and Commercial Supply Points as a consequence of the current 'lockdown' measures.

We are though concerned that, as drafted, the legal text is not clear that the period of time in which the modification would apply for is limited and we have concerns that arrangements under Modification 0721(Urgent) could apply for an extended period of time.

For instance in section 1.1(b) (i) (2) there are references to declarations made under Schedule 22 of the Coronavirus Act 2020. Under Schedule 22, separate declarations can be made in relation to prohibiting or restricting events and closing premises (or imposing restrictions on premises). Which is the relevant declaration here? What is the position if a declaration is lifted in relation gatherings but not closing premises or vice versa?

It is also unclear whether it is actually the Coronavirus Act 2020 which this modification should be predicated on and not the Health Protection Act 1984 or potentially both given that Scotland, Wales and England **may** have enacted legislation individually?

Whilst of minor importance, it is also unclear what would occur should separate restrictions be lifted at different times within the same LDZ as the legal text refers to the LDZ in its entirety.

We believe the legal text requires clarification, and possibly amendment, before this modification can be implemented.

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

Due to the currently unknown impacts or potential scale of this modification on AQs and knock-on impacts on FYAQs and subsequently Transportation charges, we believe that Relevant Objectives a) efficient and economic operation of the pipeline system, d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code are likely to be impacted negatively.

## 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