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Joint Office of Gas Transporters

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**British Gas representation on urgent COVID-19 Modifications**

Settlement accuracy has been temporarily impacted by significant changes in gas demand due to the COVID-19 lockdown. Where remote reads are still available these inaccuracies will substantially unwind as reads are processed and reconciliations can be applied. For sites that rely on pedestrian reads (and sites unable to repair non-working remote reading equipment) the unwinding will take longer to achieve.

Nevertheless, we recognise the challenge represented by supply points that are being over-allocated for this period. We are therefore generally supportive of the *intent* of the proposals relating to this (UNC 0721, UNC 0722, UNC 0723). However, as much as they address the issue at hand, they also introduce additional settlement risks that need mitigation through an effective control framework. This framework should be established before the modifications are considered for approval.

We note there has been limited time available to assess the impact of these proposals. Whilst we understand the need for urgency, the increased risk of unintended consequences needs to be considered when deciding whether to approve these modifications.

On balance, we do not support the implementation of these modifications without an effective control framework. Ofgem need to be confident that the measures will make gas settlements more accurate.

We recognise the need to protect those customers increasing consumption as part of the effort to address COVID-19 and so support UNC 0724.

Our representation against each modification is included below.

Yours sincerely

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## UNC 0721 (Urgent) Shipper submitted AQ Corrections during COVID-19

**Position**

We oppose the implementation of this modification until an effective control framework is established.

**Relevant Objective**

d) Securing of effective competition – We are concerned that this modification could have a negative impact on this objective

**Reason**

We oppose the implementation of this modification for the following reasons:

- Without a control framework in place there is potential for excessive and inaccurate AQ corrections, which would cause further harm to other parts of the market through higher volumes of unidentified gas. This is a particular risk for residential customers, where the impact of additional unidentified gas is amplified by AUG weighting factors[1].
- The Major Energy Users Council representation dated 24 April 2020 emphasises the urgent need to reduce capacity costs for sites that have reduced consumption, however this aspect is not discussed at all in the modification itself. The modification instead is focussing on "a mechanism to mitigate this issue to avoid incorrect allocations and the subsequent impacts on UIG". Capacity charges are an entirely separate consideration, requiring separate consultation, and are likely to be better addressed by a different solution.
- The exclusion of EUC 1 supply points in the solution, although based on pragmatic concerns related to the processing capacity for corrections, is a fundamentally unfair approach as it disadvantages an entire section of the market and thus has a negative impact on competition.

**Implementation**

Should the modification be implemented, we expect the Performance Assurance Committee (PAC) to monitor the usage of AQ corrections after the fact. To facilitate this, reporting on shipper activity regarding this modification needs to be provided to the PAC on a regular basis (weekly as a minimum) as close to real-time as possible. This should also be published on an aggregated basis. This may require shippers to provide reports on activity.

To protect the integrity of gas settlements an independent body should be made accountable for reviewing and approving any plans shippers have for the usage of AQ corrections during the COVID-19 lockdown period, and for ensuring the orderly unwinding of these measures at the end of this period. Shippers should provide supporting evidence to reasonably assure the reliability of their AQ corrections.

If any evidence is found that settlements' accuracy is being compromised a process to review and correct, with a similar level of urgency these modifications are following, will be required.

## UNC 0722 (Urgent) Allow Users to submit Estimated Meter Reading during COVID-19

**Position**

We oppose the implementation of this modification until an effective control framework is in place.

**Relevant Objective**

[1] As determined annually by the Allocation of Unidentified Gas Expert

d) Securing of effective competition – Negative. The modification has the potential to have a negative impact on this objective

**Reason**

We oppose the implementation of this modification for the following reasons:

- Estimated reads will be indistinguishable from actual reads in industry systems, which means that the ability to assess the integrity of gas settlements is reduced.
- Each estimated read submitted (assuming it passes validation) will cause a reconciliation, which will impact the rest of the market through unidentified gas reconciliation (UGR). Controls need to be in place to ensure these impacts are not excessive.
- There will be future read submission issues when any estimated reads are higher than the next available actual read. In this instance replacement reads will need to overwrite the estimated reads (at a lower level) to allow the actual read to be accepted. There is additional risk where a change of supplier occurs during the lockdown period and where estimated reads have been applied, as the acquiring shipper will have no visibility of which historic reads are actual, and which are estimated.
- There are insufficient restrictions on which sites can have estimated reads submitted for. In particular, sites that have not provided actual reads in line with UNC requirements should not be allowed to use estimates as COVID-19 will clearly not have been the initial cause for preventing actual reads (and shippers are unlikely to have a robust view of consumption).

**Implementation**

It is expected that the Performance Assurance Committee, with the assistance of Xoserve, will retrospectively monitor the usage of estimated reads, to the extent that this is possible given they will be indistinguishable from actual reads. To facilitate this, reporting on shipper activity regarding this modification needs to be provided to the PAC on a regular basis (weekly as a minimum) as close to real-time as possible. This should also be published on an aggregated basis. This may require shippers to provide reports on activity.

To protect the integrity of gas settlements an independent body should be made accountable for reviewing and approving any plans shippers have for the usage of estimated reads during the COVID-19 lockdown period, and for ensuring the orderly unwinding of these measures at the end of this period. Shippers should provide supporting evidence to reasonably assure the reliability of their estimated reads.

If any evidence is found that settlements' accuracy is being compromised a process to review and correct, with a similar level of urgency these modifications are following, will be required.

**UNC 0723 (Urgent) Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period**

**Position**

We oppose the implementation of this modification until an effective control framework is in place.

**Relevant Objective**

a) Efficient and economic operation of the pipe-line system – Negative. The modification has the potential to have a negative impact on this objective without effective controls in place.

d) Securing of effective competition – Negative. The modification has the potential to have a negative impact on this objective without effective controls in place.

**Reason**

We oppose the implementation of this modification for the following reasons:

- If isolation flags are applied in an uncontrolled manner, there is the risk that excess allocation may apply to the rest of the market.
- Sites with isolation flags are not allocated unidentified gas. Without physical isolation in place, these supply points may still consume gas, and therefore contribute to unidentified gas which will be apportioned to the rest of the market.

**Implementation**

It is expected that the Performance Assurance Committee, with the assistance of Xoserve, will retrospectively monitor the usage of isolation flags. To facilitate this, reporting on shipper activity regarding this modification needs to be provided to the PAC on a regular basis (weekly as a minimum) as close to real-time as possible. This should also be published on an aggregated basis. This may require shippers to provide reports on activity.

To protect the integrity of gas settlements an independent body should be made accountable for reviewing and approving any plans shippers have for the usage of the isolation flag during the COVID-19 lockdown period, and for ensuring the orderly unwinding of these measures at the end of this period. Shippers should provide supporting evidence to reasonably assure the reliability of their use of the isolation flag.

If any evidence is found that settlements' accuracy is being compromised a process to review and correct, with a similar level of urgency these modifications are following, will be required.

**0724 (Urgent) - Amendment to Ratchet charges during COVID-19 period (avoidance of ratchet charges and capacity increases as a result of a short-term increase in demand)**

**Position**

We support the implementation of this modification.

**Relevant Objective**

a) Efficient and economic operation of the pipe-line system – Positive. We would note that we have not reviewed the process in detail.

**Reason**

We support the implementation of this modification for the following reasons:

- It is right to offer protection from adverse commercial impacts where Class 1 and 2 supply points have increased gas consumption related to managing COVID-19.
- As this is driven by actual data, and involves review by the Transporter, there are not the same concerns around controls and unintended consequences as for the other modifications.