

| UNC Modification | At what stage is this document in the process? |
|---|---|
| <h1>UNC 0730V:</h1> <h2>COVID-19 Capacity Retention Process</h2> | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid blue; padding: 2px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; padding: 2px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; padding: 2px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div> |
| <p>Purpose of Modification:</p> <p>Allow sites (supply points) isolated in accordance with Modification UNC723 (Urgent) - <i>Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period</i> to be subject to a rebate of 50% of their LDZ Capacity Costs.</p> | |
|  | <p>The Proposer recommends that this modification should be: Treated as urgent and proceed as such under a timetable agreed with the Authority</p> |
|  | <p>High Impact: Shippers</p> |
|  | <p>Medium Impact: Transporters</p> |
|  | <p>Low Impact: Customers</p> |

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| Timetable | | |  07580 215743 |
| The Proposer recommends the following timetable: | | | Systems Provider: Xoserve |
| Modification considered by Panel | 16 July 2020 | |  UKLink@xoserve.com |
| Initial consideration by Workgroup | 23 July 2020 | | |
| Workgroup Report presented to Panel | 15 October 2020 | | |
| Draft Modification Report issued for consultation | 15 October 2020 | | |
| Consultation Close-out for representations | 05 November 2020 | | |
| Final Modification Report available for Panel | 10 November 2020 | | |
| Modification Panel initial consideration | 19 November 2020 | | |
| Variation Request presented to Panel | 17 December 2020 | | |
| Final Modification Report issued to consultation | 17 December 2020 | | |
| Consultation Close-out for representations | 08 January 2021 | | |
| Final Modification Report available for Panel | 12 January 2021 | | |
| Modification considered by Panel | 21 January 2021 | | |

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.

Requested Next Steps

This modification should be treated as Urgent and proceed as such under a timetable agreed with the Authority.

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)

Modification 0723: Final Modification Report

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 COVID-19 period will continue to be charged 50% of the applicable current Capacity Charges to ensure the *retention of capacity* rights during the COVID-19 period. For ease of understanding this charge 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)

Business Rules continued

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.

BR5: To qualify for relief i.e. capacity retention charge under this modification the relevant Shipper will be required to warrant to the CDSP within 20 Supply Point Business Days, of receipt of a notification from the CDSP of the opening of a relevant claim period, that the relevant Supply Meter Point(s) are subject to the relevant restrictions relating to their operation under the COVID Regulations e.g. 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

We anticipate there may be a requirement to replicate the process in the iGT UNC.

EU Code Impacts

None

Central Systems Impacts

To be determined

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.

Relevant Objectives (Charging Proposals)

| 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: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (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.

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.

Text Commentary

Legal text has been published alongside this Modification.

Text

Legal text has been published alongside this Modification.

10 Recommendations

Proposer's Recommendation to Panel

The Authority is asked to:

Agree that this Modification should be treated as urgent and should proceed under a timetable approved by the Authority.