UNC Final Modification Report	At what stage is this document in the process?

UNC 0726 (Urgent):

COVID-19 Liquidity Relief Scheme for Shippers

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

This Modification aims to introduce a scheme of defined duration, that seeks to assist those customers who have liquidity constraints due to COVID-19 and whose Supplier uses Shippers on Gas Transporter (GT) networks (Distribution Network Operators (DNOs) and the National Transmission System (NTS) networks).

This Modification relates to some Transportation invoices; it excludes invoices for energy balancing. Only some Shippers will be eligible. The total value of the scheme is capped and will end by the end of the 2020/21 financial year.

This Modification supports Ofgem's COVID-19 priorities of supporting vulnerable customers and maintaining the supply of gas and is consistent with the Ofgem open letter published on 02 June 2020.

Panel consideration is due on 18 June 2020

High Impact:

Shippers, DNOs, National Grid NTS, Suppliers, Consumers

Medium Impact:

None

Low Impact:

Independent Gas Transporters (IGTs) (for awareness)

Contents

Timetable

The Proposer recommends the following timetable:	
Request for urgency issued to Ofgem	03 June 2020
Decision on urgency	03 June 2020
Modification issued for consultation	03 June 2020
Consultation Close-out for representations	12 June 2020
Final Modification Report available for Panel	16 June 2020
Modification Panel recommendation	18 June 2020
Modification sent to Ofgem for decision	18 June 2020
Ofgem decision	No later than 23 June 2020

Any questions?

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1 Summary

What

In order to provide some relief to Shippers on payment dates for some Gas Transportation invoices, the Uniform Network Code (UNC) needs to be amended to allow for extension to payment dates for some invoices and to make provisions for the operation of the scheme and relief from some of the consequences of Shippers not paying by the existing Invoice Due Dates.

The purpose of the scheme, which is consistent with the Authority's COVID-19 priorities and the open letter "Managing the impact of COVID-19 on the energy market – introducing the option of relaxing network charge payment terms for suppliers and shippers"[1], is to provide relief to Gas Suppliers through Shippers and to target this to those that are experiencing temporary COVID-19 related liquidity constraints by providing extended payment dates for some invoices. Its purpose is not to support Shippers or Suppliers with liquidity problems that existed before COVID-19. Admission to the scheme will be based on a GB wide eligibility criterion and will be administered by the Central Data Services Provider (CDSP) whose decision shall be final. The scheme will apply to certain invoices issued in July, August, and September 2020 with all amounts to be repaid before the end of the 2020/21 financial year. Shippers in the scheme are not required to increase their Code Credit Limit for the additional exposure during the extended payment period and Transporters are not required to seek additional security against the increased exposure. Should one of these Shippers be unable to make the required payments at the end of the extended payment period the Gas Transporters (GTs) will incur bad debt that will be recovered from Shippers in 2021/22. Parties should be aware of this risk.

Shippers should begin to immediately consider the eligibility criterion that will apply should the Modification be implemented, so that they can be ready to apply to the scheme, if eligible, when the application window for the first Billing Period opens.

For the avoidance of doubt, invoices issued by IGTs to Shippers on IGT networks are excluded from this proposed scheme.

Why

Although no Shippers have, to date, approached GTs indicating a risk of defaulting payment for Transportation invoices, GTs are aware that an electricity Supplier has requested a derogation from the Distribution Connection and Use of Systems Agreement (DCUSA) Panel from the obligation to pay Distribution Use of System (DUoS) charges by the required date.

In recognition that some gas Suppliers may face liquidity constraints due to COVID-19 that they are unable to relieve internally, GTs have considered the best way to provide some targeted support. GTs have therefore proposed this scheme, that is aimed at giving relief in respect of some Gas Transportation Charges to those Shippers who may be Shippers for these Suppliers.

Due to the commercial structure of the gas industry that is defined in the Gas Act (1986), it is not possible for GTs to give relief directly to Suppliers. The scheme will operate for certain invoices issued in July, August and September 2020.

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[1] https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_0.pdf

It should be noted that it is expected that eligible Shippers will pass on the relief to eligible Suppliers through their existing commercial arrangements, however this cannot be mandated by the UNC.

How

A scheme, in operation for a limited period, will be set up under which Shippers will be able to seek to defer a proportion of their Gas Transportation Charges. There will be an eligibility criterion to try and target the relief effectively. The scheme will comprise the following elements:-

1) The Eligibility criterion defining which Shippers can apply for assistance.
2) A Time constraint. Payment dates for invoices issued in July, August and September 2020 will be extended with all deferred payments being made before the end of March 2021. The scheme will then cease and existing terms prior to the scheme will again apply.
3) Relief from the requirement for Shippers to provide and GTs to seek additional security or surety for the additional credit provided under the scheme for the duration of the scheme only.
4) Relief from UNC sanctions and late payment charges for non-payment of invoices in the scheme by the existing invoice due date; however, sanctions will be applied if the extended payment dates are not met.
5) Interest, at existing rates, will be charged on payments not made by the existing invoice due date currently defined in the UNC.
6) For the avoidance of doubt, an invoice, or a part of an invoice, not in the scheme will continue to be subject to existing UNC terms.

2 Governance

Justification for Urgency

Urgent status is requested as this Modification addresses a current issue that, if not urgently addressed, may cause a significant commercial impact on Shippers through Supplier failure, in turn caused by the impact of COVID-19 on consumers.

Requested Next Steps

This Modification should be treated as Urgent and should proceed as such under a timetable agreed with the Authority. This Modification needs to be implemented as soon as possible.

Since the principles have been discussed with the Authority, and the solution is very detailed, it should proceed directly to consultation whether or not legal text is available at the start of the consultation.

3 Why Change?

Requirement for change

Since the COVID-19 lockdown was enforced on 23 March 2020 several businesses have either ceased trading or substantially cut down on trading activities. At the same time some domestic customers are finding that they are experiencing significant financial impacts and may require additional support from their Supplier. Were a significant number of Suppliers to fail there would a significant number of Supplier of Last Resort events to administer and this might disrupt the market and might expose vulnerable customers to risk.

Although no Shippers have directly approached GTs indicating a risk of defaulting payment for Transportation invoices, GTs are aware that an electricity Supplier has requested a derogation from the DCUSA panel from the obligation to pay DUoS charges by the required date.

Due to the commercial structure of the gas industry, as defined in the Gas Act (1986), it is not possible for GTs to give financial relief directly to Suppliers. This Modification is therefore designed to support those Suppliers which, due to COVID-19, find themselves in financial difficulties by providing short term financial relief to the relevant eligible Shipper, with the expectation that those Shippers will pass on the financial benefit to the Supplier in distress. The scheme is aimed at those Shippers that do not have access to support from within their company structure and therefore the criterion looks at whether an Investment Grade Rating is in place.

Outline of Scheme

In order to protect the financial resilience of the gas networks, the GTs will provide a fund of up to £112.5m, of which £100m is provided by the DNOs[2], the remainder being provided by National Grid NTS and will only be allocated to Shippers that apply within given timescales and where the application meets the required eligibility criterion. The rules of the scheme shall ensure that the relief given does not exceed the GT cap.

These rules and the associated deviation from UNC defined payment terms, need to be clearly stated to ensure transparency and therefore a UNC Modification is required. Shippers will be required to warrant that they will not pay dividends or bonuses and pay rises to senior management until deferred charges plus interest are repaid.

Key features of scheme and points to note

This Modification should provide targeted support for a limited period for Transportation Services provided between June and August 2020 (invoiced July to September) subject to a cap on relief provided to each Shipper. It will do so by assessing Shippers against a transparent and evidence-based eligibility test (defined in the Solution), assessed on a GB wide basis and, where eligibility is confirmed, will allow extended payment terms on the majority of the charges for the following invoices:

- DNO LDZ Capacity Invoices;
- NTS Entry Capacity Invoices;
- NTS Exit Capacity Invoices relating to charges to Shippers only; and
- NTS Charges on the Commodity Invoice (NTS charges on the Commodity Invoice comprise NTS Entry Commodity Charges, NTS Exit (Flat) Commodity Charges and NTS Optional Commodity Charges).

All other invoices and an upfront payment will continue to be due for payment on the existing Invoice Due Date. The reason for this is to simplify the administration of the scheme and provide the relief on the highest value invoices.

[2] GB gas DNOs: Cadent Gas Ltd, Northern Gas Networks Limited, SGN, Wales & West Utilities Limited

A pre-payment agreement is an agreement between a DNO and a Shipper to pre-pay the estimated value of the LDZ Capacity and Commodity invoices, this means that the Shipper does not have to provide security or surety as required by UNC TPD V3.2. Shippers that have prepayment agreements with any of the GTs and have made a pre-payment for a Billing Period will be excluded from the scheme for that Billing Period. The reason for this is that a Prepayment Agreement is a contract that requires pre-payment in full of the estimated value of the Capacity and Commodity Invoices and Shipper that has pre-paid the estimated value of the capacity and commodity invoice for a Billing Period cannot be said to be experiencing liquidity problems in respect of that Billing Period.

For those Shippers that qualify there will be no requirement to provide additional security to cover the amount outstanding for the extended payment period but existing levels will need to be maintained and the current provisions of the UNC in relation to provision of security will continue to apply; failure to do this will result in the GT being able to apply the existing UNC provisions. Transporters will not be required to seek additional security in relation to the additional value outstanding during the extended payment period. There will also be relief from the threat of sanctions, such as preventing Shippers from growing their portfolio and increasing capacity, for non-payment of the deferred part of applicable invoices by the existing invoice due date for the Billing Periods (trading done in), June, July and August 2020 (invoices raised in July, August and September).

Interest will be charged at the rate defined in the UNC under the Late Payment of Commercial Debts (Interest) Act 1998 (currently 8.75% reducing to 8.1% on 01 July 2020 assuming no change in base rate by 30 June[3]) for the extended period on the amount due, to be paid at the later due dates but a late payment charge will not be charged. The charging of interest is designed to act as a disincentive to those Shippers who are in a position to access financial relief elsewhere and will help maintain the integrity of the fund and target relief only to those most in need. Interest will continue to be charged and late payment charges will be charged on those invoices not included in the scheme if not paid by the Invoice Due Date. The threat of sanctions will be reinstated for payments due but not made on the extended payment dates, together with other specific scheme related measures described in a later paragraph below.

The eligibility test Shippers must meet to utilise the scheme is aimed at including those Shippers that have no alternative mechanism and are otherwise unable to alleviate the immediate financial impact of COVID-19 on them and their relevant Suppliers.

Each GT will administer its own fund. The fund will be allocated between the months and each month will be administered separately. To simplify administration the monthly fund will be further split between invoice types where more than one invoice type is included in the scheme and the process for sharing will be applied to each invoice type in the Billing Period. Shippers will be required to make an upfront payment which will be as a minimum a proportion of the value of each of the Applicable Invoices on the Invoice Due Date to ensure that the payment process is kept operational during the scheme. There will be a cap of £333,000 each month for each network[4], (on average across the three months), on the maximum amount that a Shipper (by Shipper Short Code)

[3] This could change again with effect from 01 January 2021.

[4] Cadent Gas Ltd has four networks: SGN, two: and Northern Gas Networks Limited and Wales & West Utilities Limited, one each.

can defer each month under the scheme. If this is reached the Shipper will need to pay more than the minimum proportion of the value of the Applicable Invoice on the existing Invoice Due Date.

Due to the GTs not knowing the values of the Applicable Invoices until they are issued, the exact amounts for each Shipper that can benefit from the later payment date can only be calculated by each GT after the invoices have been issued. All eligible Shippers will pay either 25% of the invoice value or the invoice value(s) minus the £333,000 cap on individual Shippers, whichever is the greater, and may be required to pay an additional amount if the GT cap has been reached for that month. There will therefore be additional administration for each GT and for Shippers using the scheme. This will need to be appropriately resourced to ensure compliance with the terms of the scheme.

To smooth the payment profile, each monthly deferred payment will be repaid in two equal portions. The deferred payment for the June Billing Period (invoiced in July) will be paid equally in October and November. The deferred payment for the July Billing Period will be paid equally in December and January, and the deferred payment for the August Billing Period will be paid equally in February and March.

The extended payment dates will be written into the UNC and failure to pay the sums due by the extended payment dates will result in a Shipper no longer being eligible to take part in the scheme and the current UNC rules will then apply. For the avoidance of doubt, late payment to any of the GTs in the scheme will result in the Shipper ceasing to benefit from the scheme for all GTs. The reason for this is that the eligibility criterion has been set on a GB wide basis to make administration of the scheme easier.

Any interest paid to GTs under the scheme will be used to fund any bad debt resulting from Shippers using the scheme being unable to pay their invoices and ceasing to operate. Any bad debt not covered by interest paid will be recovered from the generality of Shippers in the 2021/22 formula year.

The scheme will end on 03 March 2021 for DNOs and 23 March 2021 for National Grid NTS; these dates are the respective last extended payment dates. Any payments outstanding when the scheme ends will be subject to the prevailing UNC terms at that time.

4 Code Specific Matters

Reference Documents

UNC TPD Section S Invoicing and Payment

UNC TPD Section V General particularly V3 Code Credit Limits

Both the above are available here: https://www.gasgovernance.co.uk/TPD

Knowledge/Skills

A detailed knowledge of UNC payment terms and credit arrangements is required.

5 Solution

Business Rules for the COVID-19 Liquidity Relief Scheme for Shippers

Eligibility Criterion and Application

Applications to be part of the scheme shall only be made in the Application Window for that Billing Period (Billing Period Application Window) which shall be the last five Business Days of the Billing Period.

A Shipper User who has applied and satisfies the following COVID-19 Liquidity Relief Scheme Eligibility Criterion will be defined as an Eligible Shipper for that Billing Period only.

A Shipper applying to be an Eligible Shipper shall provide the following minimum information: the Shipper Short Code(s) for which they are applying; a valid email address for each of the contact person(s) dealing with the scheme; a valid mobile phone number for each of the contact person(s) dealing with the scheme.

For information Shippers need to apply for each Billing Period, applications do not carry over from one Billing Period to the next.

No new Shippers shall be admitted to the scheme for a Billing Period after the end of the Application Window for that Billing Period.

The COVID-19 Liquidity Relief Scheme Eligibility Criterion for each Billing Periods is:

Neither the Shipper themselves, nor any member of their corporate group have an investment grade credit rating

The test will use the definition of an Approved Credit Rating in UNC TPD V3.1.1 (b), this means a company that has a rating from a rating agency other than the three listed or a rating from the three listed that are below the minimum listed will not be considered to have an investment grade credit rating (IGR).

The test for all Billing Periods is that an IGR is not in place on 01 June 2020.

The test relates to both wholly owned and partially owned subsidiaries whether that be majority or minority shareholdings as this is consistent with the definition of Parent Company in UNC TPD V3.4.5.

Shippers with pre-payment agreements

A Shipper with an agreement with any of the GTs to pre-pay invoices as envisaged by UNC TPD V3.2.1 (b) ii shall not be permitted to participate in the scheme if the Shipper User operates under a Pre-Payment Agreement and the Shipper User has made a pre-payment for the Billing Period for which it is applying to be admitted to the scheme.

Administration of eligibility by CDSP

The decision as to which Shipper Users qualify to be Eligible Shippers shall be made by the CDSP strictly in accordance with the COVID-19 Liquidity Relief Scheme Eligibility Criterion, whose decision shall be final and binding.

The CDSP shall notify Shippers whether they qualify as Eligible Shippers for that Billing Period once a decision has been made and shall communicate the list of Eligible Shippers for that Billing Period to the GTs immediately after the end of the Billing Period.

Warranty by Shippers

Eligible Shippers will warrant that they will not pay dividends or executive bonuses until all the deferred charges plus interest are repaid.

For information breach of the warranty shall have the same consequences as a failure to pay the amounts due on the Extended Invoice Due Dates 1 or 2.

Applicable Invoice

An Applicable Invoice is limited to the following invoices and charges issued in respect of the Billing Period (trading done in) June, July, and August 2020:

- For Gas Distribution Networks; an LDZ Capacity invoice, and
- For National Grid NTS:
    - an NTS Entry Capacity Invoice,
    - an NTS Exit Capacity Invoice for the Invoice Items / charge types relating to Shipper Users only, and
    - on the Commodity Invoice, the NTS Invoice Items:
        - NTS Entry Commodity Charges,
        - NTS Exit (Flat) Commodity Charges and
        - NTS Optional Commodity Charges.

The UNC will need to allow for these Applicable Invoices to be one invoice with multiple payment dates and notifications as described in this solution. UNC TPD Section S1.5 will probably need to be amended to allow Applicable Invoices to be Divided Invoices and to provide for the relevant notices and the payment dates within that amendment.

Extended Invoice Due Dates

Two new concepts of an **'Extended Invoice Due Date 1 (EIDD1)'** and **'Extended Invoice Due Date 2 (EIDD2)'** will be introduced to supplement the existing Invoice Due Date as defined in UNC TPD Section S3.1.2. These will be the dates shown in table 1 below. All existing provisions applying to Invoice Due Dates shall apply to EIDD1 and EIDD2 unless specifically amended by this Solution.

Table 1: Extended Invoice Due Dates

For the avoidance of doubt and for information only:

The extended payment dates in terms of the number of days after the Day on which the Invoice Document was deemed to be received in accordance with UNC GT Section B5 or D5

is shown in table 2 below but table 1 showing Extended Invoice Due Dates above is what will go into the Legal Text.

Table 2: Extended Payment dates (number of days)

Billing Period	*Extended Invoice Due Date 1 (number of Days after the Day on which Invoice Document was deemed to be received in accordance with UNC GT Section B5 or D5)*	*Extended Invoice Due Date 2 (number of Days after the Day on which Invoice Document was deemed to be received in accordance with UNC GT Section B5 or D5)*
June 2020	*90*	*120*
July 2020	*120*	*150*
August 2020	*150*	*180*

For information, half the deferred amount will be paid on Extended Invoice Due Date 1 and half the deferred amount will be paid on Extended Invoice Due Date 2, to smooth the payment profile.

Caps and calculation of amount to be paid on Extended Invoice Due Dates

For any Eligible Shipper, the Shipper Billing Period Cap shall be as shown in the table below. The sum of the values of the Applicable Invoices that are due to be paid on the Extended Invoice Due Date 1 and Extended Invoice Due Date 2 to the GT shall not exceed the Shipper Billing Period Cap for that GT for that Billing Period.

Table 3: Shipper Billing Period Cap

Gas Transporter	**Shipper Billing Period Cap (SBPC) in £ for the relevant Applicable Invoices**			**Sum of Shipper Billing Period Caps (for information) in £**	**Constituent LDZs**
	June 2020	**July 2020**	**August 2020**		
Wales and West Utilities	326,086	336,957	336,957	1,000,000	SW, WS, WN (including Llanfyllin and Llanwrtyd Wells networks)
Northern Gas Networks	326,086	336,957	336,957	1,000,000	NO, NE
SGN (Total for Southern Gas Networks and Scotland Gas Networks) (1)	652,174	673,913	673,913	2,000,000	SO, SE, SC (including Scottish independent Undertakings LO (Oban), LC (Campbeltown), LW (Wick), LT (Thurso), LS (Stranraer))

Cadent	1,304,348	1,347,826	1,347,826	4,000,000	NT, WM, EM, EA, NW
National Grid NTS	326,086	336,957	336,957	1,000,000	Not applicable

(1) In respect of SGN, the Shipper Billing Cap is shown at a total level, shared equally between Scotland Gas Networks and Southern Gas Networks

For each GT, for each Billing Period, the sum of the values of the Applicable Invoices that are due to be paid on the Extended Invoice Due Date 1 and Extended Invoice Due Date 2 by all Eligible Shippers to that GT shall not exceed the Transporter Billing Period Cap for that GT for that Billing Period shown in Table 4 below.

Table 4: Transporter Billing Period Caps

Applicable Invoice Type and Gas Transporter	**Transporter Billing Period Cap £M**			**Sum of Transporter Billing Period Caps (for information, £M)**	**Constituent LDZs**
DNOs LDZ Capacity Invoice for stated Billing Period	**June 2020**	**July 2020**	**August 2020**		
Wales and West Utilities	4.076086	4.211957	4.211957	12.500000	SW, WS, WN (including Llanfyllin and Llanwrtyd Wells networks)
Northern Gas Networks	4.076086	4.211957	4.211957	12.500000	NO, NE
SGN (Total for Southern Gas Networks and Scotland Gas Networks) (1)	8.152174	8.423913	8.423913	25.000000	SO, SE, SC (including Scottish independent Undertakings LO (Oban), LC (Campbeltown), LW (Wick), LT (Thurso), LS (Stranraer))
Cadent	16.304348	16.847826	16.847826	50.000000	NT, WM, EM, EA, NW
National Grid NTS					
NTS Entry Capacity Charges and NTS Exit Capacity Charges (2)	0.434666	*0.449155* (3)	*0.449155* (3)		Not applicable
NTS Entry Commodity Charges (2)	2.096125	*2.165996* (3)	*2.165996* (3)		Not applicable

NTS Exit (Flat) Commodity Charges and NTS Optional Commodity Charges (2)	1.545296	*1.596806* (3)	*1.596806* (3)		Not applicable

(1) The Transporter Billing Period Cap in relation to Scotland Gas Networks and Southern Gas Networks is shown at a total level, with the network allocation based upon eligible applications received in respect of each Billing Period to optimise the relief available. See Adjustment of Transporter Billing Period Caps below for further detail. For the avoidance of doubt the Transporter Billing Period Caps for Cadent, NGN and WWU will be applied at a company level.

(2) initial division of the £12.5m aggregate cap for National Grid between the relevant Transportation Charges is based upon the number of days in the relevant Billing Period and the proportions collected via the Applicable Charges in the whole of Gas Year 2019/20. It is worthy of note that in this calculation, NTS Exit Capacity charges only included those levied to shippers and therefore excluded those amounts levied to Gas Distribution Networks.

(3) for National Grid only, the values outlined in the table above for July and August are indicative, any 'un-utilised' Billing Period cap in the June and July Billing Periods will be added to the overall cap for the following Billing Period allowing the required flexibility for the Relief scheme to be effectively targeted. See Adjustment of Transporter Billing Period Caps below for further detail.

Minimum Payment and Eligible Shipper cap

An Eligible Shipper is required to pay by the Invoice Due Date (the '**Minimum Payment**') the greater of:

25% of the value of an Applicable Invoice; and
the value of the Applicable Invoice minus the Shipper Billing Period Cap (SBPC)

For information this is the effect of the Shipper cap and means that Shippers that are subject to the Shipper cap have to make a higher upfront payment than the minimum.

For National Grid NTS only

For information in the case of National Grid NTS, the SBPC is a value applied over the Billing Period hence it will be reduced by any SBPC 'utilised' in respect of Applicable Invoice/s for the same Billing Period issued earlier in the month.

Where, in the case of National Grid NTS, there is more than one Applicable Invoice, for the second Applicable Invoice, the Eligible Shipper is required to pay by the Invoice Due Date (the '**Minimum Payment**') the greater of

- 25% of the value of the second Applicable Invoice
- and the value of the second Applicable Invoice minus the Remaining Shipper Billing Period Cap (RSBPC),
- where RSBPC is the greater of the SBPC minus the Final Extended Invoice Due Date, (FEIDD) Amount, (see Transporter cap section below) for the first Applicable Invoice; and Zero.

For Information, the FEIDD is defined later in this in the sub-section Transporter cap.

For the third Applicable Invoice the Eligible Shipper is required to pay by the Invoice Due Date (the **'Minimum Payment'**) the greater of

- 25% of the value of the third Applicable Invoice; and
- the value of the third Applicable Invoice minus the Remaining Remaining Shipper Billing Period Cap (RRSBPC),

- where RRSBPC is the greater of the RSBPC minus the FEIDD Amount for the second Applicable Invoice; and Zero.

For information table 5 below gives an example of how the above process works for National Grid NTS

Table 5: Operation of Supply Billing Period Cap for National Grid NTS

Shipper Billing Period Cap for June Billing Period (SBPC)	**£326,086**

Issue Date	Applicable Invoice	Invoice Value	Minimum Payment	SBPC	RSBPC	RRSBPC	FEIDD Amount
04-Jul	NTS Capacity	£185,460	£46,365	£326,086			£139,095
10-Jul	NTS Exit Commodity	£196,000	£49,000		£186,991		£147,000
24-Jul	NTS Entry Commodity	£202,500	£162,509			£39,991	£39,991
							£326,086

Amounts Due on Invoice Due Dates			
IDD	**EIDD1**	**EIDD2**	**Total**
£46,365	£69,548	£69,548	£185,460
£49,000	£73,500	£73,500	£196,000
£162,509	£19,996	£19,996	£202,500

<u>Transporter Billing Period Cap</u>

The Initial Extended Invoice Due Date Amount (the '**IEIDD Amount**') is the difference between the value of the Applicable Invoice and the Minimum Payment.

As soon as reasonably practicable after the issue of the Applicable Invoice, the Transporter shall, where the aggregate of all Shipper Users IEIDD amounts is more than the Transporter Billing Period Cap (TBPC) calculate:

Where the aggregate of all Shipper Users IEIDD amounts:

- exceeds the TBPC; each Eligible Shipper's IEIDD will be reduced by the ratio of the TBPC to the aggregate of all Shipper Users IEIDD amounts. This adjusted value is the Final Extended Invoice Due Date Amount (FEIDD Amount). As a consequence, the Eligible Shipper will make an Additional Minimum Payment equal to the difference between the IEIDD Amount and the FEIDD Amount.
- is less than or equal to the TBPC; the Eligible Shipper's FEIDD Amount will be equal to its IEDD Amount.

  FEIDD Amounts will be payable as follows:

  - 50% of the FEIDD Amount is due by Extended Invoice Due Date 1; and
  - 50% of the FEIDD Amount is due by Extended Invoice Due Date 2

In respect of Scotland Gas Networks and Southern Gas Networks that each have a licence, the total TBPC will be allocated between networks based upon the eligible applications received in respect of each Billing Period, in order to optimise the relief available.

As soon as practicable following the issue date of each Applicable Invoice, the relevant GT will issue a notice to the Eligible Shipper to confirm, in respect of each invoice, the amount due to be paid by:

- the Invoice Due Date.

- Extended Invoice Due Date 1; and
- Extended Invoice Due Date 2

For information this reflects the effect of the Transporter cap on the relief and if the Transporter cap has effect, it increases the upfront payment required above the minimum.

Where an Eligible Shipper does not provide sufficient security to satisfy the User's Value at Risk requirement as required by UNC TPD Section V3.2.1(d)(i), then it shall pay the Additional Minimum Payment within 5 Business Days of being notified of its value by the Transporter. Failure to do this shall be a breach of User's Value at Risk (VAR) requirement required by UNC TPD Section V3.2.1(d)(i).

For avoidance of doubt, as this amount is only paid by the Shipper because it does not have enough security to pay on the Invoice Due Date, this is not an invoice due date just a notification for information to the Shipper. Failure to pay the Additional Minimum Payment by the required date would result in a VAR breach and subsequent action under UNC Section V3 in respect of VAR breaches.

Where an Eligible Shipper has made a payment of the full value of the Applicable Invoice before the Invoice Due Date and before the Transporter has notified the Eligible Shipper of the values of the IEIDD Amount and, where required, the FEIDD Amount and the Additional Minimum Payment then the Transporter shall refund the FEIDD Amount to the Shipper within 5 Business Days of calculating its value. The refunded amount shall be deemed to be a refund of an overpayment by the Shipper User, not an adjustment to the invoice under UNC TPD Section S1.8 and the Transporter shall not be liable to pay interest on the amount refunded to the Shipper User (UNC TPD Section S3.5.1 does not apply) and shall not be required to make a late payment charge (UNC TPD Section S3.6.5 does not apply) in respect of the refund.

For information, the above provision should not be required if this Modification is implemented by the date proposed.

Security and Surety

The determination of the User's VAR as required by UNC TPD Section V 3.2.1(d)(i) will be assessed as if the full value of the Applicable Invoice was due and paid on the Invoice Due Date (this is equivalent to the determination of the User's VAR as required by UNC TPD Section V 3.2.1(d)(i) being assessed and operated as if the scheme was not in existence).

The assessment of the aggregate amount invoiced to the User, but remaining unpaid, used in the determination of the User's VAR as required by UNC TPD Section V 3.2.1(d)(i) will not include any such amounts that are due to be paid on either of Extended Invoice Due Date 1 or Extended Invoice Due Date 2 that remain unpaid between the Invoice Due Date and the Extended Invoice Due Date 1 or Extended Invoice Due Date 2 as the case may be.

Table 6 below summarises the amounts included in the VAR calculation for information

Table 6: Amounts included in VAR calculation

		Period						
VAR		**From**	**To**	**From**	**To**	**From**	**To**	**From**
		Issue	**IDD or date inovice paid**	**IDD+1**	**EIDD1**	**EIDD1+1**	**EIDD2**	**EIDD2+1**
Amount Due by	Invoice Due Date (IDD)	In VAR		In VAR		In VAR		In VAR
	Extended Invoice Due Date 1 (EIDD1)	In VAR		Out of VAR		In VAR		In VAR
	Extended Invoice Due Date 2 (EIDD2)	In VAR		Out of VAR		Out of VAR		In VAR

Adjustment of Transporter Billing Period Caps (TBPC)

For each Invoice Type for each GT, if the TBPC is exceeded in a Billing Period due to an error in the operation of the scheme then the TBPCs in subsequent Billing Periods will be adjusted by the amount the TPBC was exceeded. The decision about how to make the adjustment shall be made by the relevant GT and it shall publish the revised values of the changed TBPCs by means of a notice published by the Joint Office of Gas Transporters before the end of the relevant following Billing Period.

For any Invoice Type for each GT, if the TBPC is not used in a Billing Period then the TBPCs in subsequent Billing Periods will be adjusted by the remaining unused TBPC amount. The decision about how to make the adjustment shall be made by the relevant GT and it shall publish the revised values of the changed TBPCs by means of a notice published by the Joint Office of Gas Transporters before the end of the relevant following Billing Period.

In the case of SGN (Scotland Gas Networks and Southern Gas Networks):

The TBPC of £25m, and the associated monthly breakdown, is a total value across both network licences. Upon receipt of eligible applications, an adjustment will be made to split the total monthly TBPC value across the two network licences in order to best facilitate take-up of the scheme and optimise the relief available to Users. The split may vary between Billing Periods but will not exceed the total monthly TBPC.

For the avoidance of doubt, allocation across SGN network licences will be reflected in the Minimum Payment and FEIDD Amounts confirmed to Users as defined above.

Sanctions

In respect of amounts subject to the Extended Invoiced Due Date 1 and Extended Invoice Due Date 2 that remain unpaid after the **Invoice Due Date**, the Eligible Shipper **shall not** be subject to the threat of sanctions in UNC TPD Section S 3.5.3 (prohibition on gaining new Supply Points / new customers and prohibition on capacity increase).

In respect of amounts subject to the Extended Invoiced Due Date 1 and Extended Invoice Due Date 2 that remain unpaid after Extended Invoice Due Date 1 or Extended Invoice Due Date 2 as the case may be, the relevant User **shall** be subject to the threat of sanctions (UNC TPD Section S 3.5.3 shall apply).

For the avoidance of doubt there is no relief from the threat of sanctions for failure to pay non-Applicable Invoices by the Invoice Due Date nor is there relief from the threat of sanctions for failure to pay the amount due for Applicable Invoices due on either Extended Invoice Due Date 1 or Extended Invoice Due Date 2. Note that failure to make these payments results in the Shipper leaving the scheme, see later section of this Solution.

Late payment charges

In respect of amounts subject to the Extended Invoiced Due Date 1 and Extended Invoice Due Date 2 that remain unpaid after the Invoice Due Date, the relevant User will not be subject to a late payment charge (UNC TPD Section S 3.6.5 shall not apply).

In respect of amounts subject to the Extended Invoiced Due Date 1 and Extended Invoice Due Date 2 that remain unpaid after Extended Invoice Due Date 1 or Extended Invoice Due Date 2 as the case may be, the relevant User **will** be subject to a late payment charge (UNC TPD Section S 3.6.5 shall apply).

For information failure to pay the amounts due on Extended Invoice Due Date 1 and Extended Invoice Due Date 2 have other consequences detailed in following parts of this solution section.

Interest charges

For information there is no legal text relating to interest payments as the existing UNC provisions in UNC TPD S 3.5 on late payment and 3.6 on interest apply un-amended; however, for the avoidance of doubt the following is provided for information.

In respect of amounts subject to the Extended Invoiced Due Date 1 and Extended Invoice Due Date 2 that remain unpaid after the Invoice Due Date, the relevant User will pay interest at the Applicable Rate as defined in UNC TPD S3.6.4 from the day following Invoice Due Date for as long as the amount remains unpaid.

If the amounts due on the Extended Payment Invoice Due Date 1 and Extended Invoice Due Date 2 are not paid in full then, for the avoidance of doubt, interest shall continue to be charged at the Applicable Rate as defined in UNC TPD S3.6.4.

For information under UNC TPD Section S 3.6.6 Invoices for interest have to be issued within 35 Days (calendar days) of the Day on which payment of the amount due is made.

User Default

Relevant amounts remaining unpaid during, and up to, the Extended Invoice Due Date 1 and Extended Invoice Due Date 2 will not constitute a User Default described in UNC TPD Section V 4.3.1.

Cessation of Scheme

The scheme will cease at the end of the Gas Day on the 03 March 2021 for DNOs and 23 March 2021 for National Grid NTS unless terminated earlier by another provision.

For information TPD S3.1.2 requires payments to be made by 24:00 on the Day the invoice is due to be paid; however, a banking day may end earlier than 24:00 and payments should be made in time to be processed by the bank on the due date.

The scheme will cease for a GT if at any time any entity in that GT's company group will breach any of its financial covenants by continuing to provide the scheme. The GT may at its sole discretion permit deferred payments already agreed to continue to be paid under the terms of the scheme or may require immediate payment of all sums previously deferred under the terms of the scheme.

Except under the above clause at the GT's sole discretion, upon cessation of the Scheme, any invoice that was classified as an Applicable Invoice under the Scheme that remains unpaid shall be subject to the prevailing UNC provisions following cessation of the Scheme.

The obligation to make payments due under the scheme and pay any invoices and late payments charges and interest due under the scheme survives the cessation of the scheme.

Ceasing to be a COVID-19 Liquidity Relief Scheme Eligible Shipper

A Shipper User that fails to pay the amount due of an Applicable Invoice by the Invoice Due date, to any GTs shall immediately cease to be a COVID-19 Liquidity Relief Scheme Qualified Shipper for that Billing Period for that GT and all deferred payments for that Billing Period for that GT shall immediately become due and the prevailing UNC terms shall apply to those payments.

A Shipper User that has breached the Warranty or that fails to pay the value due of an Applicable Invoice by Extended Invoice Due Date 1 or Extended Invoice Due Date 2 to any GT shall immediately cease to be a COVID-19 Liquidity Relief Scheme Eligible Shipper for the life of the Scheme for all GTs and all payments deferred under the scheme for all GTs shall immediately become due and the prevailing UNC terms shall apply to those payments.

For the avoidance of doubt these cessations apply for all GTs not just the party that fails to receive the payment by the Extended Invoice Due Date.

A Shipper User may choose to voluntarily cease being a COVID-19 Liquidity Relief Scheme Eligible Shipper in any Billing Period for a GT and all deferred payments for that Billing Period for that GT shall immediately become due and the prevailing UNC terms shall apply to those payments.

For the avoidance of doubt nothing in the scheme rules prevent a Shipper paying an amount before it is due to be paid.

A Shipper User that voluntarily ceases to be an Eligible Shipper in any Billing Period may not apply to be an Eligible Shipper in any future Billing Period for all GTs.

All Shippers Users cease to be Eligible Shippers on cessation of the Scheme.

Publishing of information

Notifications that apply to all Eligible Shippers will be posted on the website of the Joint Office of Gas Transporters.

For information, notifications and information that is specific to particular Shippers will be communicated between the nominated contacts provided by the Shipper and Transporter under the scheme.

6 Impacts and Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No, this Modification should cease to be effective prior to the implementation of an SCR. Although Modification 0678A has been implemented from the 01 October 2020 this will not affect the operation of this Modification as the last Applicable Invoice relates to a Billing Period before the 01 October 2020.

Consumer Impacts

The relief is being provided to Shippers with the expectation that they will be able to pass the benefit to Suppliers who it is envisaged will use it to provide relief to consumers.

Cross Code Impacts

Both the gas and electricity networks are implementing the principles of the Ofgem open letter although we understand that a DCUSA modification is not being raised. No Cross-Code impact has been identified for the IGT Uniform Network Code but IGTs should note the proposals. This Modification does not apply to transportation invoices issued by IGTs to Shippers that use IGT networks.

EU Code Impacts

None.

Central Systems Impact

There are no impacts identified on central systems. There will be no change to the process for calculating the applicable Transportation invoices nor issuing them. The change is to when amounts must be remitted, and this is managed by the GTs.

Competition

This support is being provided to Shippers whose liquidity has been impacted by COVID-19 and who are unable to secure support from other sources. Although it provides support to some Shippers only this this is reasonable as it is aimed at providing support for problems caused by COVID-19 and prevent COVID-19 related Supplier failures. This would lead to Supplier of Last Resort appointments that could, if there were a significant number, impact customers, particularly vulnerable customers. It is therefore consistent with the broad approach of UK government policy in respect to the response to COVID-19. The relief is not free, as interest will be charged for the extended payment period at a rate that is significant and eligible Shippers would need to make a commercial decision about whether to make use of this facility.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
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

This Modification furthers relevant objective d) i and ii because by providing support to Shipper and through them to Suppliers suffering from liquidity constraints due to COVID-19, it will support the viability of the existing number of Shippers and Suppliers in the market so maintaining competition during COVID-19 which should then support furthering competition between Shippers and between Suppliers post COVID-19.

8 Implementation

Implementation should be immediately following a Direction to implement from the Authority. Timescales are tight to implement this Modification in time for the June Billing Period. The Modification must be implemented by 23 June (and preferably earlier) to allow the Application Window to be open for the last five Business Days of June.

For the avoidance of doubt, there is no intention to provide any element of retrospection in this Modification.

There will be administration costs for GTs administering the scheme and additional costs for Shippers participating in the scheme as they will have more payments to make.

9 Legal Text

Text Commentary

This will be provided separately.

Text

This will be provided and published separately as soon as practicable.

10 Consultation

Panel invited representations from interested parties on [dd mmm yyyy]. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 18 representations received 8 supported implementation, 1 offered qualified support, 2 provided comments, 1 did not provide a preference and 6 were not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
Cadent	Support	d) - positive	• 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. In their letter '*Managing the impact of COVID-19 on the Energy Market – introducing the option of relaxing network charge payment terms for suppliers and shippers*', dated 02 June 2020, Ofgem outlined their expectation for the support they would like to see Network companies provide to Suppliers and Shippers during this period. Cadent believe this Modification is consistent with the principles outlined in the

			aforementioned letter. • The Modification, if implemented, would provide relief to those Shippers experiencing liquidity issues which are solely COVID-19 related and who are unable to access alternative funding arrangements. It would do this by temporarily relaxing the payment terms for the largest invoices and not requiring additional security or surety to cover the 'deferred' payments. • By targeting only those Shippers who are unable to access alternative funding elsewhere and setting a Transporter cap, the Modification seeks to ensure that, the risk of any Supplier of Last Resort (SOLR) event, as a consequence of COVID-19, is minimised whilst at the same time protecting Transporters own financial positions by ensuring financial covenants are not breached. • The Modification is seeking to ultimately support the customers of otherwise efficient Suppliers, via their Shipper, and seeking to prevent any COVID-19 related disorderly exits from the market. In doing so it should reduce the risk of disruptive SOLR events which could have serious implications for industry participants and consumers (in particular vulnerable customers). Cadent therefore believe this Modification will further Relevant Objective d). • Given the urgent nature of this Modification Cadent agree with the proposer that implementation should preferably be immediately, and in any case no later than 23 June 2020, following a decision by the Authority. • No central systems costs are expected but both GTs, and Shipper Users who participate, will incur internal administration costs. • Satisfied that the Legal Text meets the intent of the Modification
Contract Natural Gas (CNG)	Qualified Support	d) - positive	• CNG acknowledge and recognise the need for some form of cash-flow support for energy industry participants whose liquidity has been directly impacted by the COVID-19 pandemic. • Agree that this change needs to be implemented as soon as feasibly possible. • As referenced within the Modification, CNG foresee little / no cost of implementation other than potential administrative costs to Network, CDSP & Shippers for the facilitation of the scheme.

			• No comments on the legal text at this time, although this would have ideally been published at the same time as the Modification document to allow timely review. • Believe the scheme may impose administrative and operational costs to Shippers. • Believe that the following points require more consideration within the Modification: 1) **Its purpose is not to support Shippers or Suppliers with liquidity problems that existed before COVID-19.** As Suppliers are not governed by the UNC, how will Networks / CDSP assess this in instances where the Supplier does not fulfil their own Shipping services? 2) **Due to the commercial structure of the gas industry that is defined in the Gas Act (1986), it is not possible for GTs to give relief directly to Suppliers.** **It should be noted that it is expected that eligible Shippers will pass on the relief to eligible Suppliers through their existing commercial arrangements, however this cannot be mandated by the UNC.** Acknowledge and appreciates the need for financial / liquidity support to Shippers & Suppliers, the UNC is not applicable to Suppliers, therefore CNG are unsure as to why any reference to relationships between Shipper & Supplier (particularly of a commercial nature) are documented within this Modification. If the sole driver for this scheme is to support Suppliers with financial relief, CNG do not feel the UNC is the correct mechanism for this. Believe the highlighted statements (above) combined with the proposed caps from Networks sets a dangerous expectation of Suppliers and will ultimately leave Shippers of multiple wholesale customers in a difficult position. Suggesting that Shippers will pass on a certain amount of relief to Suppliers whilst placing a standardised cap on all Shippers will ultimately leave a Shipper in the precarious situation of having to decline requests from Suppliers. Shippers will be required to make strategic and commercial, risk-based assessments of Suppliers within extremely tight timeframes with little / no steer or guidance from Codes and Regulators. Recommends any Cap should be relative to the

			Shippers volume or wholesale portfolio, if this is not possible from a financial perspective, the issue must be acknowledged and addressed within the Modification. Note that the Ofgem Supply Licence review is currently on hold. It would be beneficial for Shippers if the changes proposed within the review were implemented ahead of this scheme to give confidence that the Regulator would provide more support to Shippers in instances where Suppliers were not fulfilling scheme repayments. **3) Interest, at existing rates, will be charged on payments not made by the existing invoice due date currently defined in the UNC.** **Interest will be charged at the rate defined in the UNC under the Late Payment of Commercial Debts (Interest) Act 1998 (currently 8.75% reducing to 8.1% on 01 July 2020 assuming no change in base rate by 30 June) for the extended period on the amount due, to be paid at the later due dates but a late payment charge will not be charged.** **The relief is not free, as interest will be charged for the extended payment period at a rate that is significant and eligible Shippers would need to make a commercial decision about whether to make use of this facility.** Understands there is a level of risk from Networks to provide the scheme, there is a large likelihood / inevitability that all costs will be recovered, (even in instances of Supplier failure), either by the scheme deadline or via mutualisation. It is less likely that costs would be recovered by Shippers (particularly in instances of Supplier failure). Believe the Code should enforce Interest for late payment, however the nature of the scheme enables an extension to payment deadlines, CNG would challenge whether interest should be charged from the invoice date and believe payment should only be due when payment is classified as overdue in line with the scheme schedule i.e. after the 90, 120 & 150 day timelines outlined in Table 2 Extended Payment Dates (number of days). Acknowledge that this scheme is not a like for like equivalent of schemes provided by the Treasury, CNG believe that Interest rates should be proportionate with

			such schemes. Due to the extraordinary circumstances COVID-19 has imposed upon multiple parties they would recommend interest rates should be reflective of the spirit of this scheme and government schemes, particularly in instances of early repayment. As an alternative, should it not be possible to reduce or align interest to existing Government schemes, CNG would propose a rebate of interest in-line with timely repayment by the end of the scheme period.
Energy Intensive User Group (EIUG)	Comments	d) – none	• Many sectors of the Energy Industry will be struggling during this COVID-19 pandemic. Financial relief should be targeted at the end users/consumers so that the funding works all the way up the energy hierarchy to Suppliers – Shippers - Transporters. Unless that financial relief (or additional time to pay invoices) filters down to customers – we may see many of them closing down which will ultimately result in all different consumer sectors funding in future years. • This relief scheme has been raised as a result of the potential issue of end users failing to pay or delaying payment. However, the financial relief is not being targeted towards end users. This Modification should be expanded to ensure that any benefit (either financial or expanded invoice timescales) is cascaded down to consumers.
EDF	Oppose	d) - negative	• Understand and support Ofgem's ambition to help Shippers and Suppliers struggling financially as a result of COVID-19. However, as set out, this proposal has flaws which will result in a risk that it could distort market competition. • This is partly because not all Suppliers can access it, given that only Shippers can apply for this financial relief. There is no guarantee that a Supplier's Shipper would pass any funding to them as they are under no obligation to. This proposal does not provide a solution to this issue. • As intended by the Modification there is also no guarantee that Xoserve could accurately assess whether any company applying may be operating an unsustainable business pre COVID-19 issue and will seek administration at a later date, but before any monies they have received are repaid. This proposal may only delay such an outcome and result in higher level of bad debts needing to be mutualised. • Considering the £112.5m fund available, there is a credible risk that gas Suppliers and Shippers, and ultimately their

			customers, will have to finance this extra bad-debt next year. EDF believe that greater transparency of take up of this facility and regular reporting on repayment should be part of the modification so that other Shippers/Suppliers can effectively estimate potential mutualisation levels to be recovered in 2021. • It is important that Ofgem's price cap take into account these additional potential costs and more broadly increasing bad-debt costs as result of the COVID-19 crisis. • Suggests this Modification should not be implemented. • This proposal has the potential to cause £100m's of extra costs to consumers through mutualisation if those accessing the scheme ultimately fail. • No justification or supporting analysis was raised to support this fundamental and complex proposal.
Energy UK	n/a	n/a	• Understands that the Industry is currently operating in extraordinary circumstances and with this mind welcomes Transporters' efforts to explore with Ofgem how they can provide Suppliers with additional financial support during these unforeseeable times, noting the concerns previously raised by Industry, and being creative in how to do this. • Note that a number of Energy UK members continue to have significant reservations about the proposed Modification, including around the lack of open and transparent consultation during its development. With this in mind, if implemented, it is vital that the Joint Office ensure the scheme is operated by Transporters in a transparent manner and that sufficient information is published with regards to the schemes operation, as a minimum the amount of any approved deferrals, so as to allow other Shippers (and their Supplier customers) to manage the financial risk of any default.
E.ON	Oppose	d) - negative	• It is not a solution which is offered to the whole market. Only those who are eligible, and although E.ON recognise that different risks are applied in different areas of the market, there should not be disparities in the offerings. This could be a disadvantage to some and contradict competition law through the application of dissimilar conditions to similar transactions. • The payment break could assist those eligible to price differently and could have an unfair advantage compared to those who are not eligible and who cannot price differently as they are not in receipt of the same relief. This could have impacts on Suppliers and their approach to the price

			cap which would go against the principle that it is meant to be 'a fair price for energy' that reflects the true cost of energy. • The lack of further security arrangements is of concern as well as no definitive sanctions. Should the Modification be approved the risk of failure is just being moved around. The proposal supports those organisations that have adopted less sustainable and higher risk business models. Special provisions such as this one should not be put in place to benefit those who have not acted responsibly by building adequate cashflow reserves for times of hardship. • It is clearly outlined that the CDSP's decision on eligibility is final, but it is not clear how they will ensure it is not abused or misused. The interest element may act as a deterrent, but this sanction is relatively weak. E.ON would, therefore, call for much more stringent controls and sanctions to be in place. • Should an Organisation still fail even after relief is provided, E.ON have assessed that the networks will be unharmed. Instead the cost of failure will fall onto those more risk averse Suppliers and onto consumers. To prepare for further failures, as well as those that have already occurred, the price cap methodology should be updated to consider these additional costs (so that it reflects the "true" cost of supplying energy). • As an urgent Modification, the implementation decision making falls to the authority. As Ofgem has, in part, instigated this approach (although sponsored by a Transporter), E.ON asks how Ofgem can make a without prejudice decision on this solution? • Supportive of intervention by Ofgem to support with the ongoing COVID-19 challenges, but this support must be equitable and benefit all participants. Building on the points above, the most pragmatic approach would be to amend the price cap methodology so that it considers the additional costs that participants are facing, as a consequence of COVID-19, which include increased bad debt coupled with Industry costs that are not declining. • Overall, E.ON understand the reasons why this Modification has been put forward, but strongly oppose as it puts those that have built sustainable business models at a distinct disadvantage.
ICoSS	Oppose	d) - negative	• Support the concept of deferring network charges for Shippers and would have supported of a more equitable Modification, that would allow all Shippers to defer

			payments, and had some form of underwriting for the bad-debt costs that the market will potentially incur (similar to the Contract for Difference (CfD) process). • ICoSS provided their view on two key drawbacks to this change: 1. This proposal has not demonstrated that it will not ultimately increase the level of debt that will have to be mutualised across the market compared to if no support was provided. ICoSS do not believe there are adequate controls on Shippers to prevent bonuses and dividends being paid whilst these debts are outstanding. 2. The proposal will also have a distortive effect on competition as it will benefit some Shippers and not others. • The overall negative impact of these issues on competition will outweigh the positive benefit of this deferment and so will have a negative impact on relevant objective (d). • Does not believe that this Modification should be implemented. ICoSS comments notwithstanding, they are concerned over the timing of any recovery of the deferred costs. Believe that any outstanding bad-debt from this process will feed into the 2021/22 charging year and so significantly increase costs for Shippers with relatively short notice. • The prospect of industry bad-debt caused by the ability of financially unstable Suppliers in the market deferring industry costs, combined with the requirement to repay CfD and Balancing Use of System (BSUoS) deferrals in the electricity market, customer bad-debt and other mutualised Supplier of Last Resort (SOLR) costs means that customers are likely to see significant increases in energy bills as the market attempts to recover. This is just at a point when many customers will need price stability to recover from the impact of COVID-19 and ICoSS would support a staggering of any bad debt cost recovery to limit the negative impact on the market. • ICoSS members who would wish to take advantage of this new facility will need to provide information to CDSP and presumably manage any queries from GTs and CDSP. Those members who chose not to use the service, or are excluded from being able to participate, will need to factor in any bad-debt / mutualisation risk costs into their price forecasting for the coming years. • The legal text has been provided at very short notice,

therefore ICoSS have been unable to fully assess it in the limited time available.

- There are a considerable number of errors, omissions, and discrepancies to this Modification, even with the legal text provided. It is disappointing that despite the time taken to develop this detailed change, neither the regulator nor the proposer sought to engage with Shippers to develop a workable set of proposals prior to formally raising the proposal.
- ICoSS set out their findings by section:

Eligibility Criterion and Application

- There is a lack of clarity on how the process for defining eligibility for the scheme, with regard to defining company groups. UNC TPD V3.1 allows for a User's Parent or Qualifying Company to provide surety and so relies on the organisation to provide this information. This is a voluntary process and so some organisations may be part of a large corporate group and not be relying on a Parent Company's surety. Information held by the CDSP is not therefore a reliable indicator. The CDSP is expected to confirm the corporate structure of the organisation, but it is not clear what steps they are expected to take to do so. The current process as set out in the legal text does not require the applying party to provide this information.

Shipper with pre-payment agreements

- Believe that the intention under this agreement is to exclude Shippers with Pre- Payment Agreements from the scheme. It is not clear from current drafting whether they will become eligible for the scheme if a Shipper is no longer subject to the Pre-Payment Scheme, or if they cease to make payment under it, during the lifetime of the process.

Warranty by Shippers

- In the Modification it is stated that a warrant will be provided that bonuses to directors, etc will not be paid until the deferred amounts are repaid in full. The legal text by contrast does not require any form of warrant, but instead assumes an implicit agreement to the requirements set out regarding payments to directors, etc. It appears that there is no process anticipated for monitoring or verifying compliance with these requirements.

Applicable Invoice

- The Modification states that "UNC TPD Section S1.5 will probably need to be amended to allow Applicable Invoices to be Divided Invoices and to provide for the relevant

			notices and the payment dates within that amendment." It should be noted that there is no reference to UNC TPD Section S1.5 in the legal text. **Additional Minimum Invoice** • The mechanism for managing the Additional Minimum Payment, where there is insufficient security is contradictory. In the Modification, it is implied that this amount only be notified to eligible Shippers as an invoice, but for "information only" for those who have insufficient security but will be due within 5 business days (page 14). • By contrast, the legal text (Section 9.5) makes a clear requirement on all Eligible Users to pay within 5 business, the Actual Minimum Payment Amount (minus the Initial Payment Amount). **Cessation of Scheme** • It is unclear whether withdrawal of the scheme will also place Shippers into default as bills can become overdue the day after notification and how this will be handled. **Treatment of Interest** • The Modification does not cover how interest accrued by the GTs, outside of a high-level statement that the interest will be used to cover "bad debt"; this statement is not included in the solution. It is unclear as to what will happen to this interest if there is no bad-debt. As currently drafted these proposals represent a potential profit-making activity for transporters as the only commitment made in the modification is to voluntarily cover bad-debt. • Note that the Ofgem letter of 2 June 2020 indicates this will be treated as allowed revenue, but at present the Modification does not make any explicit reference to any formal process to require this (such as a licence change) – at present we are reliant on the goodwill of GTs to undertake this. • ICoSS members advocate support for the energy sector and have written to Ofgem and BEIS on that matter with specific suggestions at the start of the COIVD-19 pandemic. Support intervention in relation to deferral of network charges, but this must be universally applied to all Suppliers rather than targeted at those Energy Shippers / Suppliers that are least likely to be able to meet their responsibility for paying industry costs. • Modifications 0721 (Urgent) - Shipper submitted AQ Corrections during COVID-19, and Modification 0725 (Urgent) - Ability to Reflect the Correct Customer Network

			Use and System Offtake Quantity (SOQ) During COVID-19, would have provided a fairer solution that targeted all affected Shippers and applied only to those customers impacted by demand reductions due to COVID-19. • The scheme proposed by the ENA on behalf of Energy Networks is only available to the least creditworthy Shippers and Suppliers. This will therefore distort competition. Some Shippers will be able to avoid paying network charges and more creditworthy (and equally affected) competitors will not be able to. It is therefore inappropriate that some Shippers are able to defer payments and gain competitive advantage. It will also increase the likelihood of increased mutualisation of costs from Supplier failure, a further distortion of the competitive market. • With regards to the legal text, it appears that there is no process in the UNC for monitoring or verifying compliance with the requirements to not pay dividends or bonuses whilst this money is outstanding. This makes a breach of these covenants by a Shipper about to collapse highly likely. • Notes that the ability for the GTs to withdraw the scheme with very little notice will cause a significant price shock to those Shippers using this scheme if this occurs. As this scheme by its very nature is a last resort (as other sources of funding are unavailable).
Locus Energy Ltd	Support	d) - positive	• COVID-19 has brought unprecedented challenges across the Industry and many independent Suppliers face short term cash challenges as a result. • Support this modification as it allows some temporary relief for Suppliers / Shippers who are otherwise not able to secure other forms of Government support.
National Grid NTS	Support	d) - positive	• Support this Modification Proposal and believe it aligns with Ofgem's COVID-19 priorities of supporting vulnerable customers and its Open Letter dated 2nd June 20201. • National Grid understands that the unprecedented measures implemented to address the COVID-19 pandemic has the potential to adversely affect the cash flow position of a number of market participants, including gas Suppliers and Shippers. Recognising that consequential disorderly exit from the market by impacted Suppliers and Shippers would create disruption for consumers and potentially create a material reduction in competition, National Grid believe that this Modification

			would better facilitate relevant objective d) the securing of effective competition. • This is on the basis that enabling eligible Shippers additional time to pay the specified transportation charges will ease the cash flow burden on such Shippers for a limited period during the Great Britain response to the COVID-19 pandemic. As the contractual relationship for a Gas Network is with the Shipper, the relief via this scheme is focussed on their invoices. However, it is envisaged that the Shipper will be able to pass this onto to their respective Suppliers and consumers so that the relief can be targeted at those who need it most. • Recognising the time limited nature of the proposal, National Grid is able to implement the necessary arrangements in respect of the June 2020 Billing Period (Transportation invoices issued in July 2020). • Additional administration activities will need to be undertaken as part of National Grid's cash collection process to operate the scheme over the three month period of application. At present, this is expected to be managed within existing resource levels, however, it should be noted that the level of take up of the proposed scheme is unclear at this stage. • The level of any additional costs incurred by the CDSP in administering the Shipper eligibility aspect of the scheme are unclear at this stage. National Grid may incur additional CDSP costs as a consequence of this assessment when undertaken. • National Grid is satisfied that the legal text will deliver the intent of the solution. • The constraints and limitations inherent in the scheme seek to strike the appropriate balance between accessibility (for Shippers) and affordability (for networks) noting that Ofgem's expectation is that this scheme will act as a "last resort" form of liquidity for those Shippers unable to access alternative forms of financial support. Believe that the solution detailed in this Proposal effectively strikes this balance. • Note that in its open letter, Ofgem acknowledged that network companies will be able to recover any outstanding bad debt accrued under this scheme within the year 2021/22 and that in due course, any necessary licence changes to facilitate this will be proposed.
Northern Gas	Support	d) - positive	• Supports this proposal as extended payment terms for

Networks (NGN)			Shippers requiring additional liquidity support as a direct result of COVID-19, without access to a wider corporate group financial support, should help to alleviate the financial pressures on them. It should also allow them, where relevant, to pass this relief on to the Suppliers they ship for, therefore alleviating some of the financial impacts to the gas supply chain that have occurred as a direct result of the government's response and restrictions in relation to COVID-19. The structured repayment schedule, for the extended terms to a proportion of LDZ Capacity invoices and some NTS invoices, should ensure that all monies are repaid within the current financial year. • The introduction of value caps to offer some protection to Transporters, along with the Shipper caps to maximise the distribution of the relief, aims to minimise single points of risk within the scheme. This in turn minimises risk to the wider market, whilst maximising relief where needed. All of which is consistent with Ofgem's open letter '*Managing the impact of COVID-19 on the energy market relaxing network charge payment terms*' dated 2 June 2020. • The support to Shippers, and through them Suppliers who are experiencing liquidity constraints due to COVID-19, should help maintain the viability of Shippers and Suppliers in the market, thus furthering Relevant Objective d) Securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers. • This proposal could be implemented as soon as Ofgem approval is received. It is hoped that this would be in time for it to be available for June 2020 LDZ Capacity charges, which are invoiced at the start of July 2020. This would be maximising the relief available, whilst ensuring the scheme is completed within the current financial year and RIIO period. • As stated in the Modification, NGN will be offering extended payment terms for up to £12.5m of LDZ Capacity invoice value. This will have an impact on our cashflow, which will be managed accordingly. • Believe the legal text provided should deliver the solution set out in the Modification. • NGN has been supporting the wider supply chain throughout the COVID-19 period, including colleagues, contractors, and the community they work with. It has been challenging to ensure they provide a balanced approach to all stakeholders and are pleased to be able to offer this scheme as part of that overall balanced package across all

			of their stakeholders.
Opus Energy Ltd	Oppose	d) - negative	• Opus Energy Ltd recognise the intent of this Modification is to support gas market participants in these exceptional circumstances. However, they do not agree that the Modification positively furthers relevant objective d) i) and ii) in securing effective competition. The explanation given to justify the 'positive' effect is that without this scheme some Shippers/Suppliers may leave the market reducing the number of competitive players. The presumption being that, without this Modification, there would be insufficient Shippers/Suppliers remaining in the market to create sufficient competitive pressure. Such an outcome is highly unlikely given the current number of players in the market and the very few Shippers who will be able to utilise this scheme (given the eligibility criteria) and who otherwise may go into administration without this intervention. On the contrary, allowing this scheme to only be accessible by a narrow set of Shippers and thus giving them differential treatment and access to financing is patently market distortive and thus anti-competitive. • Moreover, Opus Energy Ltd are greatly concerned that the networks will be providing this financing scheme to some parties while taking no credit default risk themselves. It is in fact Shippers/Suppliers who bear the credit default risk as any resulting shortfall in funds will get socialised. If networks voluntarily enter into commercial lending arrangements with Shippers (subject to any prevailing financial regulation), then it is those networks who should solely bear the credit risk, as opposed to third parties (i.e. other shippers/suppliers) who have no say in agreeing such lending arrangements. • If the proposals are approved and any Shipper is unable to make the required payments after the deferral period, then Gas Transporters will realise a funding shortfall that will be recovered from all remaining Shippers in 2021/22. It is therefore critical, in line with Ofgem's open letter of 02 June 2020, that comprehensive efforts are made to pursue any debts from defaulting parties through the liquidation process in order to minimise any shortfall. • It is also important that no charges are made for any additional administration costs incurred by Gas Transporters under the scheme. Any such administration is likely to be at zero (or negligible at most) marginal cost to the Transporters. • Although Opus Energy Ltd does not support the proposal

			as currently drafted, they agree that implementation should be immediately following a Direction from the Authority, in order to be effective for the June 2020 Billing Period. • Opus Energy Ltd will incur no direct costs as a consequence of this Modification proposal, but if Shippers ultimately do not pay, then Opus Energy Ltd will incur the socialised costs of any default/shortfall.
PFP Energy	Support	d) - positive	• PFP Energy is supportive of this Modification Proposal. The COVID-19 pandemic has had unprecedented impacts to the energy industry. Whilst some Suppliers are able to access Government support should this be required; many do not have the same access. The COVID-19 pandemic has adversely affected the cash flow position of a number of Suppliers and Shippers, impacts that are specifically an outcome of COVID-19, and are therefore supportive of measures that will provide additional stability across the energy market. • Recognises there are still risks that are borne from the use of this scheme, however, believe the risks are out weighted by the benefits the scheme will bring to the energy market as a whole. It should help to maintain competition and stability for consumers, as well as support with the avoidance of disruption and costs that would otherwise be likely to come from Supplier of Last Resort events. • Whilst many businesses are able to access Government support at effectively zero interest rate* for 12 months, support through the Liquidity Relief Scheme means those that are struggling the most due to COVID-19 will have to pay default interest rates. This does not feel comparable to other support being provided by the Government and we must not forget COVID-19 is driving what is likely to be the worst economic depression seen for decades. PFP Energy believe the criteria for the scheme should be stringent enough to limit those that should receive help, rather than trying to deter businesses from accessing the scheme which may make the scheme inaccessible to those most in need of the scheme's support. ** The Government will make a Payment to cover the first 12 months of interest payments and any lender-levied charges.* • Implementation should be immediately following a decision from the Authority. • Have no impacts and costs to raise as part of response. • The Legal Text meets the intent of the Modification. • Have not identified any errors or omissions.

Shell Energy Retail Limited (SERL)	Oppose	d) - none	• SERL understands that extraordinary circumstances require innovative thinking and appreciate that Transporters are prepared to consider what can be done to address the adverse impacts of such circumstances on their customers. SERL believes however that it is not appropriate to provide a differential scheme for liquidity relief for some Shippers through this proposed mechanism. In contrast to an arrangement by which charges incurred by all participants would be deferred, the scheme as set out is intended to provide a form of alternative financing for those Shippers unable to access specific forms of economy-wide financing available by bodies explicitly charged with providing that support. This does not facilitate competition in the supply of gas: facilitating competition is not maintaining the status quo ante pending the end of exogenous events or providing a form of differential finance by credit rating. Conveyance of gas risks being carried out on unduly preferential terms for those shippers who meet the eligibility criterion of the scheme. It is not clear that any objective justification is present to support this approach. SERL fears therefore that the scheme does not enable transporters to address themselves to the adverse impact of COVID-19 on their customers, which is the overarching aim of the scheme. • Implementation - N/A on the basis that SERL do not consider this scheme is appropriate (please see above) • SERL is concerned that the express aim of the proposed scheme - to provide short term financing for eligible Shippers – is not contemplated by the duties of gas Transporters, nor countenanced within the licence granted to them. A broad-based scheme for Users concerning deferral of charges is potentially possible but a scheme which inherently discriminates between Users for what amounts to a form of financing is outwith the duties and licence obligations of gas Transporters. Taking this into account, SERL is not proposing to comment on the legal text provided on 9 June. • SERL does not consider the proxy of not meeting specified credit rating requirements meets the requirements as set out in Ofgem's open letter, which is referenced by the Modification. Eligibility does not appear to be tied to a Shipper who has not obtained alternative funding (of whatever source) nor in principle do we consider that the CDSP is best placed to assess anything other than a yes/no criterion in any event. SERL notes that the aim set out in discussions, for breathing space for affected participants, relates to Suppliers rather than Shippers, for

			whom of necessity the scheme is created. It is a fundamental flaw that such financing (reserving our position as to whether it is possible) relates to Shippers. The Modification rightly states that it cannot compel Shippers as a condition of deferral to share the benefits with their Supplier customers. Full details of deferrals approved by the CDSP must be published through the Joint Office or otherwise, alongside such information as to payment delays over the deferral period that would enable other shippers (and their supplier customers) to manage the risk of default and price this into their tariffs. They have no other means of mitigating the risk that the approved Shippers will default, leaving the bad debt to be smoothed across all other Shippers.
ScottishPower	Oppose	d) - negative	• ScottishPower opposes the Modification to implement a COVID-19 Liquidity Relief Scheme for the following reasons: 1. **Lack of justification/transparency**: The Scheme which the Modification will give effect to has been initiated by Ofgem with minimal consultation with energy Shippers and Suppliers. Ofgem has published no analysis or forecasting to support the necessity of introducing these new arrangements, nor any assessment of their impact on competition in the domestic and non-domestic retail markets. Indeed, the Modification proposal acknowledges that 'no Shippers have, to date, approached GTs indicating a risk of defaulting payment for Transportation invoices.' 2. **Inadequate competitive safeguards**: If the intention of the Scheme is to address certain energy Shipper/Suppliers' short-term liquidity issues, it is essential that adequate controls and safeguards are put in place to ensure that the scheme is used only for that purpose, is used only as a genuine last resort and minimises any distortion of competition. Agree that Suppliers should not pay dividends and should exercise pay restraint while in receipt of liquidity relief, but we believe they should also be prevented from using the resulting cashflow to gain competitive advantage by acquiring new customers. Accordingly, strongly disagree with the proposal on page 15 that eligible Suppliers shall not be subject to the threat of sanctions in UNC TPD Section S, paragraph 3.5.3). In addition, the Modification proposal seeks only to provide relief to Shippers, any relief for Suppliers and consumers relies on the relief being passed on. At

			present there are no proposals that would enforce Shippers to do so. Do not believe this Modification alone would deliver the intention set out by Ofgem to provide support to Suppliers during this time. 3. **Risk of supporting unviable businesses**: The proposed eligibility criterion for the COVID-19 Liquidity Relief Scheme is that neither the Shipper themselves, nor any member of their corporate group have an investment grade credit rating. Believe a second criterion should be added, that the Shipper be able to evidence that they were not in pre-existing financial difficulty (i.e. not an "undertaking in difficulty" as at 31 December 2019, within the meaning of the EU Temporary Framework on State Aid). This additional criterion is not uncommon or disproportionate and is in line with those which are often imposed under EU state aid rules in exchange for public support to businesses to avoid distortions of competition. 4. **Negative impact on Relevant Objectives**: For the reasons set out above, ScottishPower believe the Scheme risks having a significantly adverse effect on competition by supporting unviable business models and adding to the mutualisation costs faced by other Suppliers. This is contrary to Objective (d). • Implementation as directed by the Authority. • Impacts and Costs – none identified.
Scotland Gas Networks and Southern Gas Networks	Support	d) - positive	• SGN supports this Modification as it positively impacts relevant objective d) (i) (ii) securing of effective competition between relevant Shippers [and] Suppliers, by providing transparent and structured support to Shippers experiencing temporary liquidity challenges as a result of COVID-19. The relief will be optimised to provide support to as many scheme participants as possible, and the expectation is that the financial support provided to Shippers will be passed on to their relevant Suppliers. This proposal aims to support those Shippers who may be unable to gain commercial loans or government support and are therefore unable to access alternative relief. • SGN acknowledges the impact of the COVID-19 pandemic upon gas industry participants, particularly in relation to the initial lockdown[1] arrangements and the ongoing social distancing measures as businesses re-open. At the same time, domestic customers may be experiencing financial challenges due to a period of potentially reduced household income.

			• SGN's key priorities in this period are to ensure that customer needs are met, particularly those customers in vulnerable circumstances; to maintain secure, safe and reliable supplies; and ensure the safety of its customers and workforce. In ensuring that SGN delivers the first priority of meeting customer needs and recognised that it has become important to support the alleviation of operational market challenges to safeguard its customers. While Transporters have not been approached by any Shippers seeking financial relief, SGN understand that equivalent requests have been made within the electricity market, and the recent series of urgent UNC modifications[2] indicates a general concern regarding Shippers' financial commitments (transportation charges) and similarly being able to support their customers. • This Modification represents a coordinated approach between gas and electricity, the principles of which have been developed and agreed with Ofgem and are aligned with their recent open letter[3]. As such it is aligned with the wider government COVID-19 Response Strategy. *[1]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. These regulations were subsequently updated 1st June 2020.* *[2]Particularly 0721 Shipper submitted AQ Corrections during COVID-19 and 0725 Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19* *[3]Managing the impact of COVID-19 on the energy market – introducing the option of relaxing network charge payment terms for suppliers and shippers https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf* • Given the intention for the Modification to provide rapid relief from COVID-19 liquidity challenges, SGN welcome an Ofgem decision by 23rd June 2020, which is required in order to facilitate applications in respect of the June 2020 billing period. • As above, Transporters have not been approached by any Shippers seeking relief and therefore the likely take-up of the scheme is unknown. However, analysis has been undertaken which ensures that should the available relief be fully utilised, SGN's own liquidity and wider financial and

			associated regulatory obligations will not be placed at risk. • SGN will be required to manage the administration of the scheme between June 2020 to March 2021, although this will be undertaken by existing resource and therefore should not incur any additional costs. Shippers and Xoserve are likely to experience similar requirements. • SGN are satisfied that the legal text will deliver the intent of the Solution.
SSE Energy Supply Limited	Comments	d) - none	• SSE Energy Supply Limited ('SSE') recognises that Ofgem has asked energy network companies, through the Energy Networks Association (ENA), to develop schemes to provide relief to cash flow-constrained Shippers and Suppliers in a way that is financially viable for gas network companies. SSE considers that Ofgem is best-placed to determine whether this modification will protect the interests of consumers, having regard to the Supplier financial information it receives on a weekly basis. SSE does not, therefore, support or oppose this Modification, but considers that a number of issues should be taken into account prior to the implementation of this Modification. • SSE have no comments at this time regarding Implementation. • SSE would not face any direct costs should this Modification be implemented. However, SSE would be liable for a share of any bad debt incurred by the Gas Transporters as a result of this Liquidity Relief Scheme because it would subsequently be recovered from Shippers. • SSE have no comments at this time regarding legal text. 1) <u>Eligibility criterion need to reflect Ofgem's underlying intent</u> a. The proposed eligibility criterion is that "Neither the Shipper themselves, nor any member of their corporate group have an investment grade credit rating." b. In Ofgem's letter of 2 June 2020, setting out its decision on urgency, Ofgem confirms that "there would be certain eligibility criteria for Shippers, and caps on relief available to them, so that the scheme targets support to those shippers unable to access liquidity support by other means." Ofgem states that it "would expect Shippers and Suppliers with cash flow issues to seek to access commercial loans or the government's and Bank of England's financial support facilities, but that it notes that "the eligibility criteria and loan value caps on the schemes may prevent some Shippers and

Suppliers from being able to meet all their liquidity needs through them alone."

c. Note that the Modification highlights that the "charging of interest is designed to act as a disincentive to those Shippers who are in a position to access financial relief elsewhere and will help maintain the integrity of the fund and target relief only to those most in need." Whilst SSE recognise that the interest rate is likely to act as a disincentive in some cases, its use as the sole disincentive assumes all borrowing decisions are based on interest rates alone. Based on the proposed eligibility criterion, it remains conceivable that a Shipper may elect to defer their network charges when lower cost finance is available to them – particularly where it is a requirement of access to commercial finance that security (e.g. personal guarantees, floating charges, debentures, etc.,) be provided.

d. Do not consider that it was Ofgem's intent that Shippers should be free to disregard the liquidity support available to them by other means.

e. Consider that Shippers should be required to produce evidence, to the satisfaction of the Central Data Services Provider, that they have been unable to access liquidity support by other means.

2) <u>Shipper warranty should be extended to cover suppliers</u>

a. The proposal confirms that "Eligible Shippers will warrant that they will not pay dividends or executive bonuses until all the deferred charges plus interest are repaid."

b. However, the proposal also confirms that "The relief is being provided to Shippers with the expectation that they will be able to pass the benefit to Suppliers who it is envisaged will use it to provide relief to consumers."

c. Consider it would be reasonable to expect Suppliers who receive this relief to also warrant that they will not pay dividends or executive bonuses until all the deferred charges plus interest are repaid.

3) <u>Market participants need transparency to manage the risk</u>

a. The Modification notes that "Should one of these Shippers be unable to make the required payments at the end of the extended payment period the Gas Transporters (GTs) will incur bad debt that will be recovered from shippers in 2021/22. **Parties should be aware of this risk.**"

b. It is important to note that Shippers / Suppliers continue to offer fixed term prices to consumers, and that this scheme represents an unexpected cost which will not have been factored into these prices.

c. In order to ensure Shippers / Suppliers can effectively quantify and manage their potential exposure to this risk we consider that it is essential that there is adequate transparency relating to this scheme. This should include the total amounts drawn/repaid as a minimum, with consideration given to the merits of publishing additional information (e.g. details of recipients, amount of relief granted).

4) <u>Alternative options should be assessed prior to relief being provided</u>

a. The Modification notes that “were a significant number of Suppliers to fail there would be a significant number of Supplier of Last Resort events to administer and this might disrupt the market and might expose vulnerable customers to risk.”

b. It is SSE’s conclusion, therefore, that this scheme is expected to reduce the risk of multiple Supplier of Last Resort events occurring.

c. However, it is important to recognise that Ofgem has the power to seek an energy supply company administration order under powers given to it by the Energy Act 2011 and that this regime is “intended to deal with situations where use of [Ofgem’s] SoLR powers would not be practicable.”[1]

d. Whilst SSE acknowledge the unprecedented nature of the Covid-19 pandemic, they also recognise that the Modification confirms that the purpose of this scheme “…is not to support Shippers or Suppliers with liquidity problems that existed before COVID-19.”

e. It is not evident from this Modification how this test will be applied and we, therefore, believe it is important that there remains adequate ongoing regulatory oversight of the shippers that apply for the relief proposed by this Modification, at the point of application and on an enduring basis.

f. This is critical to ensure adequate consideration is given to the merits of extending this relief versus the use of the other regulatory powers at Ofgem’s disposal (i.e. appointment of a SoLR or use of an energy supply company administration order)

[1]*Ofgem, Guidance on supplier of last resort and energy supply company*

			administration orders, https://www.ofgem.gov.uk/system/files/docs/2017/09/solr_revised_guidance_final_21-10-2016.pdf
Utilita Energy	Support	d) - positive	• Given the requested derogation from an electricity Supplier to the DCUSA panel from the obligation to pay DUoS charges by the required date, there is a possibility that gas Suppliers could find themselves experiencing similar liquidity constraints. Easing those constraints by allowing deferred payment from Shippers of those Suppliers could help in preventing Supplier failure, therefore resulting in mutualisation costs across industry. Should Supplier failure occur, despite the scheme, the interest paid by all shippers across the scheme could negate the level of mutualisation costs. • Utilita would not require significant lead time for this change. • Utilita would not expect substantial administrative costs once the change is implemented. • Utilita are happy with the legal text. • For the purposes of credit, Utilita believe deferred invoices should be treated as being paid from the date the Eligible Shipper makes its minimum payment to the GT, rather than the original (non-deferred) due date. Including the full value of the invoice within the VaR calculation for any period means shippers wishing to defer the cost must still finance the full value to post the incurred collateral requirement. • This can be paid as early as the invoice issue date, avoiding the collateral burden on Shippers who utilise this option and dispense their payment obligation. Those Shippers waiting until the due date would see no change. This is a more accurate reflection of when a shipper would have paid their invoice and would better support Shippers, per Ofgem's COVID-19 objectives. • In addition to the comments above, Utilita believe the interest rate at just over 8% is too high. The current interest rate is intended to be punitive and contradicts the purpose of the Modification to help Shippers of Suppliers experiencing liquidity issues in these unprecedented circumstances. Interest should be charged at the finance cost incurred by the GT, providing a net-neutral cost to the GT but also reducing the burden on Shippers, better serving the intended objectives (d) i and (d) ii and Ofgem's stated goal of avoiding supplier failures and the subsequent disruption to customers.

			• It makes no sense for parties who are in difficulty, and who need to use this scheme as CBILS etc is not accessible, to be charged punitive interest rates, which will stress their finances further, and for those punitive payments to be used to help networks pay for bad debts. Networks have bad debt mechanisms already which can be used, and while painful, are equitable between Suppliers. This approach expects those already in difficulty to fund a greater proportion of bad debt than those who are not in difficulty. • Staggering the deferred repayments across two dates creates inconsistency across repayment dates between months, which is of little benefit to Shippers. Providing one consistent deferral period across all billing months is a simpler approach, using the maximum deferred repayment date in the August billing period (180 days). Using a consistent 180 day deferral period across all billing months would require scrapping the two-date repayment system to a single repayment date, but this would ease the financial burden on shippers and better achieve the purpose of the modification, to provide relief to Suppliers/Shippers with liquidity issues and avoid Supplier failure.
Wales & West Utilities	Support	d) - positive	• These unprecedented measures would not be contemplated in normal times as the UNC does not envisage that Transporters provide unsecured credit to Shippers in excess of that considered prudent and reasonable. Given the current extra-ordinary circumstances we support the Modification as it provides a clearly defined scheme to support Shippers that may not have access to financial support to help them through the impacts of COVID-19. This Modification therefore furthers relevant objective (d) competition between Shippers and competition between Suppliers by providing support to certain Shippers for a limited period. This will help maintain the existing level of competition in the market and potentially avoid disruption were there to be a significant number of Supplier of Last Resort events. • The Modification should be implemented immediately following a direction to do so from the Authority. • WWU will need to put in place additional resource to administer the scheme including any bad debt. • If the Ofgem decision is not made by 23 June then the available window for applications to the scheme for June Billing Period will be reduced unless this window is opened before the Modification is implemented. If the decision is

			not made so that the application window is open before the end of June, then our view is that the scheme will not be available for the June Billing Period. It would therefore only be available for July and August Billing Periods as the scheme ends with the August Billing Period due to the need for all monies to be repaid by the end of the 2020/21 financial year. • WWU support the eligibility criterion as this is designed to target support at Shippers that do not have access to other financial support. The Shipper cap likewise was put in place to ensure that the available relief was not taken up by a few large eligible Shippers. WWU believe that both are reasonable as they are based on immediately available public information. This is necessary in view of the urgency in setting up the scheme. A Transporter administered scheme could not use detailed information on Suppliers' or Shippers' financial position as this is commercially sensitive and therefore would not be available. • Support the strong provisions on Shippers being removed from the scheme if they default as these are designed to send a signal that the scheme rules need to be strictly met. Late payment of an invoice suggests that the Shipper is unable to make payments and the rules mean that this risk is apparent as early as possible. This gives the Transporter the longest time possible to pursue the debt and reduce its value before it is mutualised across other Shippers. • Recognise that the risk of bad debt may concern non-Eligible Shippers. Shippers participating in the scheme need to ensure that they have put in place sufficient resources to understand the scheme and to make the required payments on time without fail.

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

The Code Administrator will provide a summary of the Panel discussions that inform any decisions taken. This will include a record of Panel's views on the representations, the outcome of any votes and, where alternates exist, Panel's preference.

Leave section below blank when producing V1.0 and when preparing V2.0 FMR for Panel:

Discussion

Consideration of the Relevant Objectives

Determinations

12 Recommendations

Proposer's Recommendation to the Authority

Panel Members recommended:

- that Modification 0726 (Urgent) should [not] be implemented