Representation - Modification UNC 0726 (Urgent)

COVID-19 Liquidity Relief Scheme for Shipper

Responses invited by: 5pm on 12 June 2020

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Chris Hooper
Organisation:	Contract Natural Gas
Date of Representation:	12 June 2020
Support or oppose implementation?	Qualified Support
Relevant Objective:	d) Positive

Reason for support: Please summarise (in one paragraph) the key reason(s)

With this scheme being raised on the back of Suppliers requesting support via the electricity networks, we 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.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Owing to current circumstances regarding business liquidity & cash flow concerns related to COVID-19, combined with the requirement for the CDPS to assess qualifying criteria, we agree that this change needs to be implemented as soon as feasibly possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

As referenced within the Modification, we foresee little / no cost of implementation other than potential administrative costs to Network, CDSP & Shippers for the facilitation of the scheme.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have 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.

Are there any errors or omissions in this Modification that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

From a Shipping perspective, we believe the scheme may impose administrative and operational costs to Shippers.

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

We believe that the following points require more consideration within the Modification:

1. ***Its purpose is not to support Shippers or <u>Suppliers</u> 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.

   Whilst we acknowledge and appreciate the need for financial / liquidity support to Shippers & Suppliers, the UNC is not applicable to Suppliers, therefore we 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, we do not feel the UNC is the correct mechanism for this.

   We 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.

   We would recommend 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.

It is also worth noting 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.

We understand 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).

We believe the Code should enforce Interest for late payment, however the nature of the scheme enables an extension to payment deadlines, we 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).

Whilst we acknowledge that this scheme is not a like for like equivalent of schemes provided by the Treasury, we believe that Interest rates should be proportionate with such schemes. Due to the extraordinary circumstances COVID-19 has imposed upon multiple parties we 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, we would propose a rebate of interest in-line with timely repayment by the end of the scheme period.