








UNC Modification		At what stage is this document in the process?
<div>UNC 0XXX:</div> <div>COVID-19 Capacity Retention Process</div>		<div>01Modification</div> <div>02Workgroup Report</div> <div>03Draft Modification Report</div> <div>04Final Modification Report</div>
<div>Purpose of Modification:</div> <div>Allow sites (supply points) isolated in accordance with Modification UNC723 (Urgent) - <i>Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period</i> to be subject to a rebate of 50% of their LDZ Capacity Costs</div>		
<div></div>	<div>The Proposer recommends that this modification should be:</div> <div>Treated as urgent and proceed as such under a timetable agreed with the Authority</div>	
<div></div>	<div>High Impact:</div> <div>Shippers</div>	
<div></div>	<div>Medium Impact:</div> <div>Transporters</div>	
<div></div>	<div>Low Impact:</div> <div>Customers</div>	

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Timetable		 0121 288 2107
The Proposer recommends the following timetable:		Proposer: Steve Mulinganie
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1 Summary

What

Many businesses consumers as well as Gas Shippers and Suppliers are being adversely impacted and are suffering undue detriment due to measures implemented by the UK Government as a direct result of the unprecedented COVID-19 pandemic. This modification focuses on providing relief for those customers, (by way of a reduction of transportation charges levied on the shipper), where for reasons outside their control, have had to stop production or have had to cease to trade as a direct result of the pandemic. While these sites are either closed or utilising minimal levels of gas, the current arrangements do not cater for any relief from capacity charges. Accordingly, those customers impacted by the pandemic are being charged for capacity which they are unable to utilise.

Why

During the unprecedented COVID-19 pandemic it is important that business consumers are charged fairly for their actual gas network use, otherwise businesses may exit the UK market permanently, leading to an adverse impact on all remaining consumers' costs in the future.

Against the backdrop of the pandemic, a specially convened session of the Uniform Network Code (UNC) Distribution Workgroup was held on 14 April 2020 to consider the likely impacts of COVID-19 on the UNC arrangements and potential mitigating actions which could be taken to provide relief for relevant parties.

This led to a number of Urgent Modifications being brought forward. Whilst UNC722, UNC723 & UNC724 were approved for implementation, UNC721 and UNC725, which focused on providing relief from Capacity Charges, were both rejected.

Having considered the points set out in the rejection letters for UNC721 and UNC725 we are proposing this Modification which we believe provides fair and proportionate relief to businesses impacted by COVID-19.

By not changing either the prevailing AQ, (as per UNC721), nor the SOQ, (as per UNC725), we hope to avoid any unintended impact on the integrity of the AQ's and SOQ's held on the system and avoid any consequential impact on the process that depends on these data items.

By linking our proposal to UNC723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period* we hope to address concerns over a suitable verification process by using the arrangements already approved by Ofgem as suitable under UNC723.

As noted in the rejection letters for UNC721 and UNC725 the current isolation process was last subject to a substantive change in 2004 as part of the unbundling of metering provisions from the then network code. At that time, the split in transportation charging between capacity and commodity was 50:50 whereas now the split is 95:05.

We believe it is fair and proportionate to utilise the isolated status of a supply point to enable us to offer partial relief from capacity charges, without requiring a full Supply Point Withdrawal.

If we do nothing, we believe that some consumers will exit the market permanently and therefore cease to use the network entirely. Accordingly, Transporters would not recover any

charges from these consumers via Shippers, leaving other consumers worse off as transportation charges would need to be rebalanced/allocated in the longer term i.e. those left would have to pay more.

How

The proposal is to apply a discount of 50% to LDZ Capacity Costs for sites that are set as Isolated (utilising the process introduced by UNC Modification 0723).

The remaining 50% payment is to be seen as a Capacity *retention payment* guaranteeing the continued availability of capacity at that site.

2 Governance

Justification for Urgency

Capacity charges which do not reflect actual system usage, are having a material and detrimental impact on business customers, with many large industrial plants ceasing production altogether, and retail businesses being unable to trade while still liable for full transportation charges every month. As this modification will impact transportation charges in a material way for qualifying sites and, to a lesser extent all non-qualifying sites by virtue of the transportation revenue recovery model, a decision to implement would require authority direction. This Modification is proposed to follow an urgent timetable as this is a current issue with a significant commercial impact on some Shipper Users and Consumers.

Requested Next Steps

This modification should:

- be treated as Urgent and proceed as such under a timetable agreed with the Authority.

3 Why Change?

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4 Code Specific Matters

Reference Documents

Hyperlink to:

Transition Document: Part VI

Mod 723 Final Mod Report

Section G3.4 (Isolations)

Knowledge/Skills

None required.

5 Solution

Business Rules

The following Business Rules (BR's) apply to sites utilising the Isolation Status in accordance with Modification UNC723 (Urgent) - *Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period*

BR1. All sites Isolated in accordance with UNC723 are automatically in scope of the Capacity Retention modification

BR2. All sites utilizing the Isolation Flag under UNC723 to reflect an abnormal load reduction during the COVID-19 period will continue to be charged 50% of the applicable

current Capacity Charges to ensure the *retention of capacity* rights during the COVID-19 period. For ease of understanding this charge will be referred to as the *capacity retention charge* but will not require the introduction of a new charge type for the purposes of administration

BR3. Any replacement of the normal Capacity Charge with the *capacity retention charge* will apply from the point of Isolation under UNC723 until either the earlier of either:

- (i) the removal of the Supply Point from the Isolated status or
- (ii) the end of the relevant period (COVID-19 period)

BR4. Any Supply Points set to Isolated Status before the 1st August 2020 under UNC723 will benefit from the replacement of the normal Capacity Charges with the *capacity retention charges* from the 1st June 2020

For the avoidance of doubt we are not proposing the introduction of a new capacity charge type instead we are proposing the application of a reduction to existing charges where applicable. For ease of administration, we are happy for this to be in whatever form is the most convenient for the CDSP to administer.

6 Impacts & Other Considerations

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

None

Consumer Impacts

Some consumers already isolating in accordance with UNC723 would be able to reduce their capacity costs through this mechanism. There would also be a minor impact on other customer costs.

Cross Code Impacts

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

EU Code Impacts

None

Central Systems Impacts

To be determined

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.	Positive

b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Relevant Objective a) Efficient and economic operation of the pipe-line system, the timely and short-term relief offered by this Modification should help to avoid non-domestic sites permanently disconnecting from the network, which would not be in the interests of the efficient and economic operation of the network, as it may lead to considerable underutilisation of the network in the longer term.

Relevant Objective d) Securing of effective competition, as this would improve cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and suppliers.

8 Implementation

We are not proposing a specific implementation date, but it would be beneficial to implement the change as soon as authority direction has been received.

9 Legal Text

Legal text is to be provided.

10 Recommendations

Proposer’s Recommendation to Panel

The Authority is asked to:

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