



COVID-19 PANDEMIC

Impacts on NDM Allocation, UIG, Reconciliation,
AQ and Transportation Charging

Background

- The current GB lockdown due to the COVID-19 outbreak will have unexpected impacts on:
 - Gas usage at individual sites
 - UIG
 - Meter Read performance and Reconciliation
 - AQ
 - Transportation charges
- These slides set out our view of those impacts by sector and possible mitigations

Impacted Sectors Considered

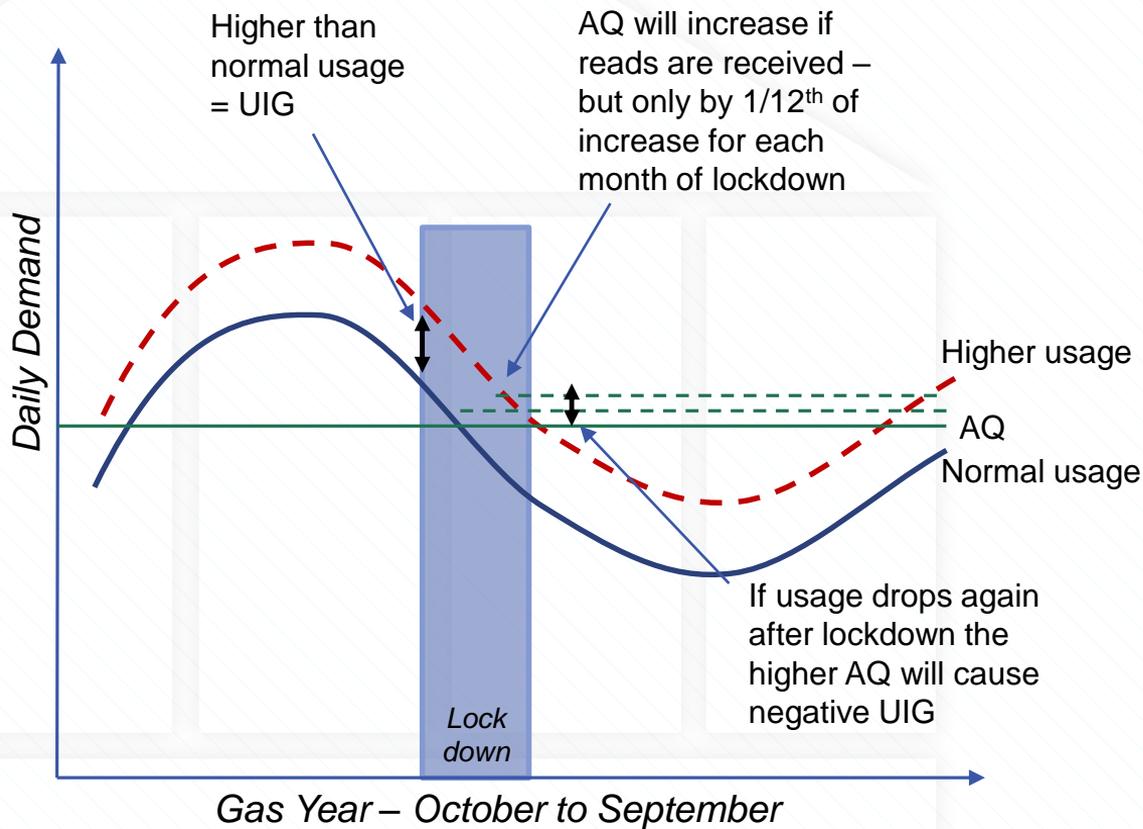
- Class 1 and 2 Sites
- Class 3 and 4 Sites – Domestic usage
- Class 3 and 4 Sites – Industrial/Commercial Usage

Class 1 and 2 Sites

Process Area	Impacts
During Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none"> - Correct as will be based on Shipper nominations and actual reads/consumption. No impact. However, if estimate generated these may be based on incorrect consumption
AQ Impacts	<ul style="list-style-type: none"> - AQs will reduce if site not consuming or consuming less than 'normal'
Charging Impacts	<ul style="list-style-type: none"> - If the AQ reduces below 732,000 kWh, the unit rate applied for transportation charges is higher.
After Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none"> - Correct as will be based on Shipper nominations or actual consumption. No impact. However, if estimate generated these may be based on site incorrect consumption (not consuming). - Potential for sites to ratchet due to increase in demand/use (current DMSOQ/SHQ based on maximum daily consumption in last winter period) - For sites where demand increased due to COVID-19 outbreak, Current Year Maximum SOQ (CYMSOQ) will be inflated for next winter period and impact Shipper's ability to apply a reduction
AQ Impacts	<ul style="list-style-type: none"> - Once site is consuming normally again it could take 12 months to reflect true consumption - AQs will increase if reads are accepted, however, reads may be rejected as read validation tolerances depend on AQ band and SOQ.
Charging Impacts	<ul style="list-style-type: none"> - Transportation charges will continue until AQ reaches 'normal' for the site

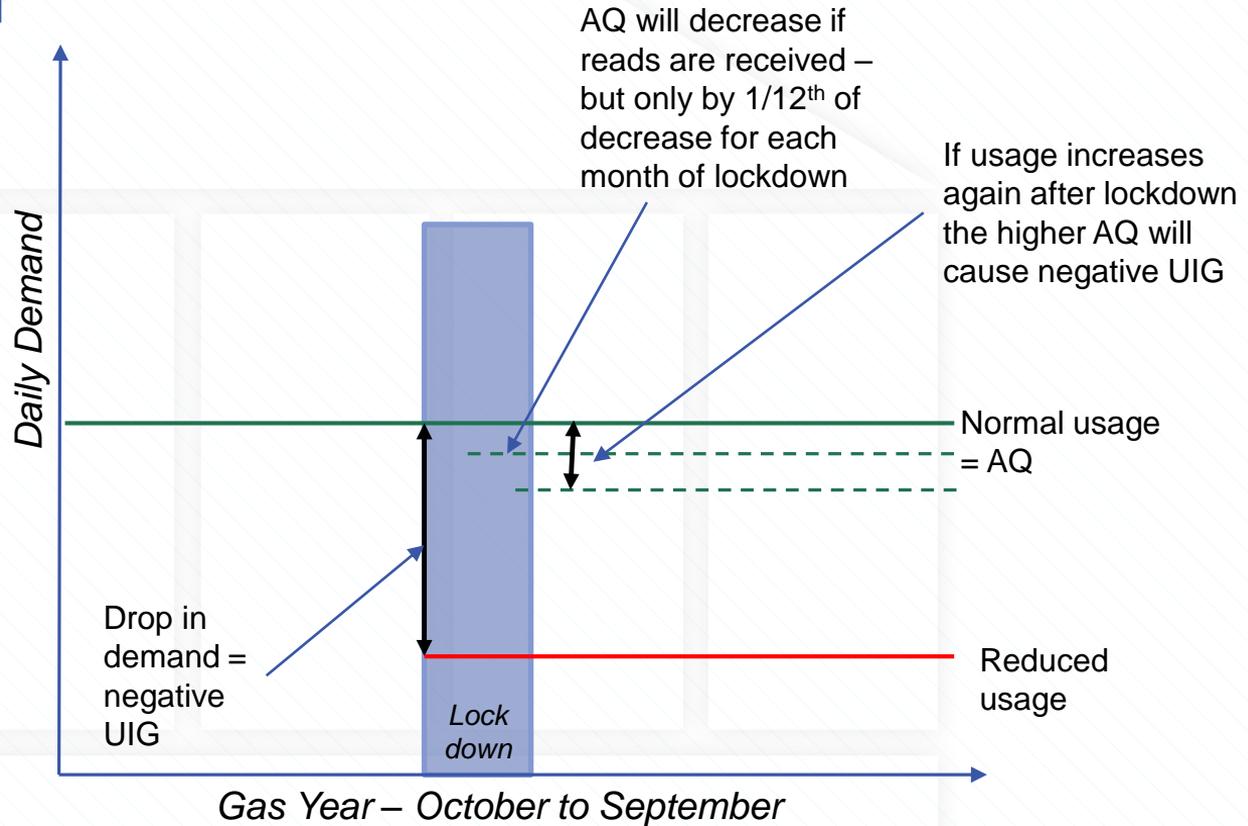
Impacts of step change in NDM demand

- NDM Nominations and Allocation is based on the AQ and the NDM Profiles
- If usage increases suddenly the site will be under-allocated – leading to UIG
- Start date and scale/ direction of change will vary between individual sites
- If reads are received the AQ will increase – in steps if monthly, as it looks for 12 months of consumption
- The steps will go some way to helping with UIG
- When usage returns to normal, the AQ will take time to return to normal in steps – leading to overallocation and negative UIG



Impacts of sudden drop in NDM demand

- NDM Nominations and Allocation is based on the AQ and the NDM Profiles
- If usage drops suddenly the site will be over-allocated – leading to UIG
- Start date and scale/ direction of change will vary between individual sites
- If reads are received the AQ will decrease – in steps if monthly, as it looks for 12 months of consumption
- The steps will go some way to helping with UIG
- When usage returns to normal, the AQ will take time to return to normal – leading to under-allocation and creating (positive) UIG



Class 3 and 4 Domestic Usage Sites

Process Area	Impacts
During Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none">- Nominations and Allocation will be understated for most sites due to increase in usage- Reconciliation will correct energy position where reads are accepted
AQ Impacts	<ul style="list-style-type: none">- AQ will begin to rise if meter reads are loaded, which will partly correct the Allocation
Charging Impacts	<ul style="list-style-type: none">- Based on Formula Year AQ (FYAQ) which may be understated
After Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none">- Nominations and Allocation will be inaccurate when usage returns to normal if the AQ has changed
AQ Impacts	<ul style="list-style-type: none">- AQ will take up to [9 to 36] months to fully recover- FYAQ snapshot in December 2020 may not reflect true future consumption
Charging Impacts	<ul style="list-style-type: none">- Charges will be incorrect if the FYAQ is affected

Class 3 and 4 I&C Usage Sites

Process Area	Impacts
During Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none">- Nominations and Allocation will be overstated for many sites due to drop in usage- Reconciliation will correct energy position where reads are accepted
AQ Impacts	<ul style="list-style-type: none">- AQ will begin to fall if meter reads are loaded, which will partly correct the Nominations and Allocation
Charging Impacts	<ul style="list-style-type: none">- Based on Formula Year AQ (FYAQ) which may be understated
After Lockdown	
Gas Nominations and Allocation Impacts	<ul style="list-style-type: none">- Nominations and Allocation will be inaccurate when usage returns to normal if the AQ has changed
AQ Impacts	<ul style="list-style-type: none">- AQ will take up to [9 to 36] months to fully recover- Winter Consumption (WC) calculations in May 2020 could be under/over-stated and impact WAR band allocation in September (ratio of AQ consumed in winter period)- FYAQ snapshot in December 2020 may not reflect true future consumption
Charging Impacts	<ul style="list-style-type: none">- Charges will be incorrect if the FYAQ is affected

Considerations

- NDM Nominations and Allocation:
 - Will be incorrect if usage changes suddenly – ideally the AQ would change to match the new usage
 - Not all I&C sites will see a big drop in demand – some sectors will have to ramp up production to meet changing needs
 - UIG will increase/decrease to offset any under/over-allocation
- Reconciliation:
 - Meter Point Reconciliation will correct Allocation errors and UIG
 - Needs regular meter reads to correct the allocation – more important when there are unusual usage patterns – could take over [12 to 48] months to flow
 - In theory Monthly Read sites will see AQs react quicker due to more readings
- AQ
 - AQ will only follow usage in small steps – only if we receive and accept meter reads
 - Will also take time to recover when usage goes back to normal
- Class 1 and 2 transportation charges where AQ changes significantly
 - Capacity charge unit rates will increase where the AQ falls below 732,000 kWh or
 - Capacity charge unit rates will reduce where the AQ increases to over 732,000 kWh

Questions

- Which impacts do we want to mitigate most?
- Do we prioritise NDM Nominations and Allocation/UIG, Reconciliation, AQ or Class 1 and 2 Transportation Charges ahead of the others?
- What actions can the Industry be taking to assist?
 - E.g. monthly meter reading submission wherever possible for Class 3 and 4
- What messaging/engagement with the wider industry?

Options Considered

- Short Term:
 - Fix the AQ for Class 1 and 2 meter points until ‘back to normal usage’ (*may require monthly manual intervention*)
 - Shippers submit an AQ Correction for sites that meet an agreed criteria (*would also impact Formula Year AQ for 2020-21 and potentially 2021-22*)
 - Amendment of the NDM Profiles (e.g. ALPs) to reflect the estimated COVID-19 impacts – *would require industry input on observed impacts*
- Long Term
 - Apply a FYAQ for Class 2 sites
 - Apply a standard transportation rate for all Class 2 sites (e.g. rate for sites above 732,000 kWh)
 - Allow SOQ reductions [for certain sites] all year round (where the AQ has dropped below 732,000 kWh)
- *Note: We have not done any detailed impact assessment of these options*
- *We have not identified one solution that addresses all the impacts over all time frames*