

UNC Modification	At what stage is this document in the process?
<h1>UNC 0740 (Urgent):</h1> <h2>Amending the Formula Year AQ approach for 2021/2 Formula Year</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">01</span> Modification         </div> <div style="border: 1px solid #17a2b8; padding: 2px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #9b59b6; padding: 2px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #f39c12; padding: 2px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>This Proposal aims to select a specific date on which to calculate the Formula Year Annual Quantity (AQ) for the Formula Year AQ effective from 1<sup>st</sup> April 2021 only.</p>	
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> <li>treated as Urgent and should proceed as such under a timetable agreed with the Authority</li> </ul>
	<p>High Impact: Shippers, Transporters and CDSP</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: None</p>

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			 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
Timetable			
<b>The Proposer recommends the following timetable:</b>			
Request for urgency issued to Ofgem	09 October 2020		
Ofgem decision on Urgency	16 October 2020		
Modification issued for consultation	16 October 2020		
Consultation Close-out for representations	23 October 2020		
Final Modification Report available for Panel	28 October 2020		
Modification Panel recommendation	02 November 2020		
Final Modification Report issued to Ofgem	03 November 2020		
Ofgem decision	No later than 16 November 2020		

## 1 Summary

### What

The COVID-19 pandemic has changed the way end users (consumers) have consumed gas during 2020 and will have impacted on their Annual Quantity (AQ) which will then influence the value which is used for the Formula Year Annual Quantity (FYAQ). It means that gas use has been out of the norm compared to any other year or event e.g. 'beast from the east' in early 2018 which was for a shorter duration.

Some consumers will have been at home more, either on furlough or working from home rather than from an office, and some industries have upped production compared to others who have reduced their gas use or even closed altogether.

To recognise that 2020 is an exceptional year, it is our Proposal that FYAQ calculations effective from 1<sup>st</sup> April 2021 are not approached in the standard way but instead a specific approach should be applied for this Formula Year

### Why

Residential consumers have all been impacted differently by the Covid-19 pandemic; some have had to shield and couldn't leave the property, others have been immersed into supporting the efforts to combat the pandemic and have not been at their properties and some have seen no changes as they have continued as normal throughout.

Industrial and Commercial (I&C) consumers have also been impacted differently with some businesses having to furlough staff and/or either temporarily or permanently closing their doors due to the pandemic. In contrast there have been some industries and business who have ramped up production or have continued as 'normal'.

What this shows is there is no single rule which can be applied to consumers/sites to recognise the variance in the gas use and there is no data available to confirm the changes in user behaviours, it is possible that for some consumers their FYAQ would be overstated based on the unprecedented 2020 use, whereas those who have temporarily closed would have an uncharacteristically low use applied to form their FYAQ.

To bring stability to the market and to, where possible, reflect 'expected normal' use rather than unprecedented pandemic use, so it is suggested to take an alternative approach for derivation of the FYAQ effective from 1<sup>st</sup> April 2021. Rather than using the calculated AQ at 1<sup>st</sup> December 2020, this Modification proposes to use the pre-pandemic position by using that the calculated AQ as of the 1<sup>st</sup> April 2020, which enables the results to be more reflective of the expected use.

### How

This Proposal seeks, for the FYAQ calculation effective from 1<sup>st</sup> April 2021 only, to use a different date for the data cut to calculate the FYAQ. This specific approach would use the same methodology for calculation but would use the AQ as of 1<sup>st</sup> April 2020 for the FYAQ calculation rather than from 1<sup>st</sup> December 2020. This would utilise readings provided up to M+10 (10th March 2020) so would be prior to the lockdown commencement which formally began on 23<sup>rd</sup> March 2020.

## 2 Governance

### Justification for Authority Direction for Urgency

This Modification is only proposed due to the impacts of the COVID-19 pandemic and the consequential unprecedented impacts to the Annual Quantity (AQ) and upcoming Formula Year Annual Quantity (FYAQ).

The request for Urgency is due to the timing implications; the data to calculate the FYAQ is taken in December of each year. The data is provided to Transporters in December so that they can define their charges for the forthcoming Formula Year. Annual Quantity and Standard Offtake Quantity (SOQ) are key factors that determine this. The standard Modification timetable doesn't allow for the Modification to be developed and implemented in time to amend the current dates for calculating the FYAQ. Therefore, Urgent procedures are proposed to allow for an accelerated timeline to progress the Modification as if not addressed quickly (prior to 1<sup>st</sup> December 2020) this issue could lead to a significant commercial impact on Shippers and Suppliers.

### Requested Next Steps

This Modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority

Due to the time constraints this Modification doesn't have sufficient time to follow standard development timescales, it is therefore requested that an Urgent timetable is granted to allow the CDSP to deliver the solution in time to allow timely implementation. A DSC Change Proposal will be sponsored and developed in parallel to this Modification.

## 3 Why Change?

This Modification is proposing the use of a specific and one-off approach to calculating the FYAQ effective from 1<sup>st</sup> April 2021 to ensure stability in the market for the upcoming year and not basing the 2021 charges on what can potentially be unprecedented gas use. 2020 has been a year like no other and there is no single rule which can reflect the different patterns of use which consumers have followed.

The key driver is to ensure that, where possible, the upcoming Formula Year calculation is not based on AQs which are either uncharacteristically high or low because of the current pandemic, and to maintain a billing AQ which is reflective of the use the consumer is likely to consume over the upcoming financial year that the Transporter charges will relate to under normal circumstances.

The FYAQ was brought in as part of Project Nexus to establish stability in the AQ modelling for Transporter charging so avoiding mid-year charging adjustments. By utilising an AQ snapshot prior to the pandemic we are using a more representative gas use in the modelling compared to pandemic use which is well out of the normal range and which even the seasonal normal weather corrections cannot level out. If we do nothing and stick with the status quo and taking the snapshot in December 2020 we are increasing the possibility of mid-year charging amendments for when gas use returns to expected use.

Although an urgent mod is not best practice, we were hopeful that the Pandemic could have settled over the summer and this may not be required. It is now clear that is not the case.

What the 'new normal' will be is unknown, however, gas use at some sites will change again in the future and because of this, the application of an FYAQ based on gas use during the pandemic is not the correct approach. Due to this a specific change in the snapshot date to an alternative date should be applied for 2020 only.

By applying a bespoke approach, it allows a rollover of the AQs from a period of 'normal' use and discounts the gas used during the unprecedented period. Although this may in some cases be reflective of the 'new normal' use, it cannot be confirmed this will be the case for all.

By applying the standard methodology in G 2.3.18(b) there is already the allowance to the process to consider the most recent calculation e.g. AQ corrections, and this change is only seeking to change the date the data cut is taken, it is not proposing to amend any of the methodology applied.

For the avoidance of doubt, G 2.3.18(b) will still apply such that AQ Corrections (AQ revised pursuant to G 2.3.20) subsequent to the AQ Calculation Month used to determine the following Formula Year AQ will apply for that following Formula Year (as well as the remainder of the current Formula Year).

It is further proposed that amendments that have been determined and agreed as necessary by the AQ task force following 1<sup>st</sup> April 2020 will apply for the 2021 Formula Year. These changes were not effected using 'AQ Corrections' but it is proposed that these amendments are treated as such.

There continues to be variations in use with local lockdowns and restrictions resulting in inconsistent gas use across the country, this cannot be modelled, and it will influence the 2021 billing AQ, the industry as a whole may see some sites with a vast variance compared to what would be normal consumptions. The Proposer believes this further supports the use of a FYAQ which is from a period of 'explainable' use.

Using the calculated AQ as of 1<sup>st</sup> April 2020 the latest Read Date could be 10<sup>th</sup> March 2020 – i.e. prior to lockdowns. This will be normalised by weather corrections, therefore would be more reflective of the expected normal use rather than inclusion of the pandemic impacted period.

We propose using all the FYAQ components applicable at the snapshot date to maintain consistency and for ease of implementation.

For the avoidance of doubt this solution is to apply to GT and IGT sites.

## 4 Code Specific Matters

### Reference Documents

TPD Section G

### Knowledge/Skills

Demand estimation knowledge is beneficial.

## 5 Solution

This Modification proposes an amendment to the derivation of the Formula Year Annual Quantity (FYAQ) for all Supply Meter Points. It proposes that the Formula Year Annual Quantity for the Formula Year starting 01 April 2021 is the Annual Quantity (AQ) applicable at April 2020 rather than December 2020. i.e. the AQ Quantity in the AQ Calculation Month from April 2020 or where such Supply Meter Point was not so calculated, the most recent AQ Calculation (G 2.3.3 (c)).

The interim change necessary to the UNC text will be to override TPD G 2.3.17, for the determination of the Formula Year starting 01 April 2021 only, as this section currently stipulates that it must be the "AQ determined in the most recent AQ Calculation falling not later than the December prior to that Formula Year".

For the avoidance of doubt, TPD Section G 2.3.18(b) will still apply. This means that AQ Corrections (AQ revised pursuant to TPD Section G 2.3.20) subsequent to the AQ Calculation Month used to determine the following Formula Year AQ will apply for that following Formula Year (as well as the remainder of the current Formula Year).

For the avoidance of doubt, any Aqs determined and agreed as requiring amendment by the AQ Task Force subsequent to the 1st April 2020, will also be used to determine the AQ for the 2021 Formula Year.

In summary the solution sees the snapshot used for the FYAQ being the Rolling AQ read as of 01/04/2020, or the most recent calculation e.g. AQ correction calculation.

## 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**

None identified as the modification changes the snapshot date that being used by the Transporters to determine the 2021 charges, it is not changing the overall methodology.

#### **Cross Code Impacts**

The solution is to apply to Gas Transporters(GT) and Independent Gas Transporter (IGT) Supply Meter Points, so depending on how the legal text is developed, an IGT UNC Modification may be required.

#### **EU Code Impacts**

None identified.

#### **Central Systems Impacts**

The CDSP will need to amend the process to determine the Formula Year AQ. The date used will need to be amended from December 2020 to the preceding April 2020.

The Formula Year AQ will need to be determined by December 2020 so that this information can be provided to GTs and IGTs to determine the prices applicable from 01 April 2021. The CDSP will need to have sufficient time to implement such changes following the Modification decision so will be required to analyse, build, test and potentially implement the necessary system code components in parallel with this Urgent Modification progressing through its lifecycle and therefore reducing the risk of not meeting an implementation date prior to December 2020.

## 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

The solution proposed supports Relevant Objective a) and d) because it allows for a stable approach to be applied to the FYAQ and Billing AQ for 2021. 2020 has been an unprecedented year with consumer gas use being (in a lot of cases) vastly different to what might be deemed 'normal'. The Proposer is unable to confirm if the current lockdown measures imposed will continue into 2021 thereby allowing possibly over or under stated AQs to be used in the process. If this happens it could have a significant economic impact and it is therefore recommended a stable approach is taken as proposed in this Modification.

It could be argued that applying the actual AQ as per the status quo is reflective of the actual use, however, with behaviours nationally and locally changing day to day, the market needs stability which this solution would bring. By providing certainty in charging environment during this challenging Covid-19 related period should promote stability in costs for market participants and thereby promote competition between Shippers and Suppliers, furthering Relevant Objective d).

## 8 Implementation

As Urgent procedures are proposed, implementation would be as soon as possible after a an Ofgem direction to do so.

To enable the CDSP to deliver the snapshot the CDSP require approximate 6 weeks' notice to implement the change as proposed.

## 9 Legal Text

### Text Commentary

To be provided by the Transporters

### Text

To be provided by the Transporters

## 10 Recommendations

### Proposer's Recommendation to the Authority

The Authority is asked to:

- Agree that this Modification should be treated as Urgent and should proceed as such under a timetable directed by them.