

Representation - Modification UNC 0721 (Urgent)

Shipper submitted AQ Corrections during COVID-19

Responses invited by: 1pm on 27 April 2020

To: enquiries@gasgovernance.co.uk

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

Representative:	Richard Pomroy
Organisation:	Wales & West Utilities
Date of Representation:	27 th April 2020
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) Negative</p> <p>d) None</p>

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

- We recognise Covid 19 is materially impacting some sectors and energy usage. Therefore we fully understand the stated aim of this Modification which is that Shippers wish to reduce the amount of energy that is allocated to sites that have reduced consumption due to Covid 19 and hence we understand the rationale (but not the solution) for this UNC Modification and the Urgent status
- If the energy allocation issue was addressed and there were no consequential impacts on Transportation Income and Charges then we would support a Modification to address that issue; however, as it stands, we **cannot support** this Modification for the following reasons:
 - The Modification proposal does not include the resultant, and presumably unintended, network impacts; which is a significant omission. The impacts on Network Transportation Income are likely to be material if this Modification results in a 20% to 50% reduction in AQs by I & C Shippers. This is likely to result in the need for a mid-year price change that will redistribute charges to domestic customers and away from I&C customers and more broadly will add charging uncertainty for all Shippers.
 - As the modification contains no process for reversing the AQ corrections, or for time limiting its application to the period of covid-19, the distributional impact on Transportation Charges for 2021/22 will continue even if

consumption for these sites broadly recovers to pre-Covid 19 levels later in 2020 due to the fact the Rolling AQ for December that is used for the Formula Year AQ for 21/22 will reflect the AQ corrections.

- Shippers' evidence of impacts must be robustly governed to stop abuse of this modification. The legal text requires the Shipper to "include reasonable evidence to demonstrate the impact of COVID-19 on gas consumption during the COVID- 19 period" The Performance Assurance Committee will need to rigorously monitor behaviour to ensure that AQ corrections reflect real consumption reductions and the new AQ reflects likely 12 month consumption and not pro-rated consumption during the lockdown period.
- We are not sure Xoserve systems have the capability to cope with the potential volume of AQ corrections that may be submitted to take effect on 1st June.
- Before a decision is made on this Modification by Ofgem they need to engage with networks and fully understand the financial resilience and impact on network services
- The Modification only allows the AQ corrections due to Covid 19 during the lockdown period; however, its effects endure well beyond this period. We may want to consider Licence changes to allow quicker recovery back to networks post the Covid 19 period
- There is scope for other UNC Modifications and Ofgem engagement with Networks on actions to address Covid 19. Ofgem must consider and impact assess this in totality rather than piecemeal.

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

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

We have significant concerns regarding the size of the impact on Transportation Charges due to the AQ Corrections affecting the Formula Year AQ impacts that were not described in the modification proposal. This results in a significant risk that a mid-year price change may be required. This would re-balance Transportation Charges towards domestic customers, we believe that this would be unfair if the impact on I&C customers is only a few months.

We are also concerned about how the Rolling AQ is restored to realistic values following the end of the Covid 19 emergency when we hope demand recovers. If Shippers rely on meter readings to gradually increase the Rolling AQ (which is what will happen without a further intervention) then there will be similar continuing impacts on Transportation Charges in 21/22 that will be inappropriate if consumption recovers during the latter part of 20/21 and broadly returns to pre-Covid 19 levels by April 2021.

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

We are aware that NGN are continuing discussions with the legal text provider regarding which legislation should be referenced.

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

Not applicable as this was an urgent modification.

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

Analysis of effect on WWU collected revenue and consequential impacts

20/21

The modification proposal refers to decrease of consumption of about 20% on average and up to 80% in some cases. One Shipper has moved a portfolio between different Shipper legal entities in the same group and has corrected its AQs using a process that is permitted on change of Shipper. On average they have reduced their AQ by about 50% so we consider that the maximum impact could be up to 50% across the entire relevant portfolio of Supply Points rather than the 20% quoted in the modification. There may be a tendency to reduce AQs to ensure that allocations during the Covid 19 emergency are accurate rather than adjusting the AQ to reflect expected consumption over a 12-month period which is the purpose of the Rolling AQ. If this is correct it could lead to large AQ corrections that exceed the observed reductions in consumption. The evidence from the aforementioned Shipper that has submitted AQ corrections to take effect from the 1st May tends to support this possibility.

Our modelling has been based on a number of assumptions due to the very limited time available. As an AQ correction amends the Formula Year AQ and the modification does not include a process for restoring the AQs to their pre-Covid 19 levels as consumption recovers we have assumed that the amended Formula Year AQ applies from June 2020 to March 2021. The table below shows the impact on collected revenue for various decreases in AQs for I&C Class 3 and 4 Supply Points.

Table redacted provided to Ofgem as confidential response

Part D of Special Condition 1B of the DN licence places incentives on the DN to not over or under recover allowed revenue by more than 6% or more in one formula year and therefore if the effect of the AQ corrections is to make an under-recovery of this size likely then a mid-year price change is likely to be required. This will rebalance charges towards other customer classes, in particular, domestic customers.

By excluding End User Category 1 from the scope of this change due to constraints on Xoserve processing capability, it prevents Shippers at domestic Supply Points from submitting AQ corrections that reflect increases of consumption at domestic premises.

21/22

An AQ correction means that the Rolling AQ is not re-calculated for nine months, the logic being that an AQ correction is a major change and this will be gradually reflected in meter readings so that it is appropriate to rely on the corrected AQ until a significant period has elapsed. This means that an AQ correction made in June or July will be the Rolling AQ in December 2020 and hence that used for the Formula Year AQ from 1st April 2021. This means that if Shippers make downward AQ corrections and then there is no further intervention to reverse them when the Covid 19 emergency ends, there will also be an effect on Transportation charges in 21/22. This will mean that should consumption recover to pre-Covid 19 levels by April 2021 domestic customers will be paying too much relative to these I&C customers during the formula year 21/22.

Other modifications

Modification 0723 (Use of isolation flag) stops gas being allocated to the Supply Points to which it is applied and so address the problem this modification is attempting to address where the consumption is zero or very nearly zero.

Modification 0722 (Allowing Users to submit estimated meter readings) will allow Shippers to ensure that Supply Points that are allocated too much gas can quickly reconcile their position by submitting an estimated meter reading.

We recognise that these other modifications do not address the allocation issue and it is unclear how much this modification will be used if all three are implemented. However, for Supply Points that are still using gas the only way to address the problem of them being allocated too much gas is to use an AQ correction; therefore our view is that the use of this modification may be substantial.

Potential impacts on Xoserve

We understand that Xoserve system is designed to handle 30,000 AQ corrections each month but has handled 50,000 in a month. Xoserve tell us that there are about 230,000 Supply Points that could use this process so there could be constraints for Xoserve if a more than 25% of Supply Points have AQ corrections submitted in a month. It is not clear what will happen should Xoserve not be able to handle the volume of AQ adjustments submitted.

Time allowed for a response

We recognise that time constraints mean that the proposer wants a decision on this modification proposal to be made in time for Shippers to submit the AQ corrections for implementation on 1st June using the established process; however, the three days allowed for the consultation is extremely short and we believe unprecedented especially considering that there are four urgent modifications to consider. Our information is that previously the shortest consultation period for a single urgent modification was five Business Days. This has restricted the amount of analysis that we have been able to do.