

## Representation – Urgent Modifications

0721: Shipper submitted AQ Corrections during COVID-19

0722: Allow Users to submit Estimated Meter Reading during COVID-19

0723: Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period

0724: Amendment to Ratchet charges during COVID-19 period

Responses invited by: **1pm on 27 April 2020**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Hilary Chapman
<b>Organisation:</b>	Scotland Gas Networks and Southern Gas Networks
<b>Date of Representation:</b>	27 April 2020
<b>Support or oppose implementation?</b>	0721: Oppose 0722: Support 0723: Support 0724: Support
<b>Relevant Objective:</b>	0721: <b>b)</b> Negative <b>d)</b> Negative 0722: <b>d)</b> Positive 0723: <b>a)</b> Positive <b>d)</b> Positive 0724: <b>a)</b> Positive

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

The above modifications, while raised as separate proposals, have been progressed and subject to legal text drafting as a suite. As such SGN has submitted a consolidated consultation response highlighting common themes and also providing modification-specific comments.

#### Common Themes

##### Impact of COVID-19

SGN acknowledges the significant impact of the COVID-19 pandemic upon gas industry participants, particularly in relation to lockdown<sup>1</sup> arrangements which implemented restrictions upon population mobility, accompanied by government instructions to close or re-purpose certain categories of premises. As a result, the otherwise expected

<sup>1</sup> For the purposes of this response, where we refer to 'lockdown' or 'COVID-19 period' we refer to the restrictions enacted through the Coronavirus Act 2020, Schedule 22 declaration issued in March 2020 and the restrictions placed upon businesses and population enacted through the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020, which both came into force on 26<sup>th</sup> March 2020.

demand of certain sites may significantly decrease (in the case of some industrial consumers) or increase (in the case of domestic consumers and those industrial consumers participating in the national effort). The unexpected nature of the lockdown arrangements creates difficulties for users to predict and quantify consequent demand in the initial stages, with standard industry processes not necessarily being sufficiently agile to provide immediate relief.

SGN's key priorities in this period are to ensure that our customer needs are met, particularly those customers in vulnerable circumstances; to maintain secure, safe and reliable supplies; and ensure the safety of our customers and workforce. In ensuring that we deliver the first priority of meeting customer needs we recognise that it may be important to support the alleviation of operational market challenges to safeguard our customers. As such, we support the development of urgent modifications to facilitate pragmatic and tactical solutions to alleviate the impact of COVID-19.

#### Alignment with Government COVID-19 Response Strategy

In developing a coordinated approach, it is important that industry aligns with the wider government COVID-19 Response Strategy, articulated through the clear expectations<sup>2</sup> expressed by Ofgem. Central government has introduced a large number of packages to support industry and consumers in these challenging times and it is important that any modifications are aligned to, and complimentary with, this approach. This alignment with central government strategy is particularly important where urgent modifications could have a substantial impact on transportation revenues, as such actions could preclude networks from taking action at a later date should it be requested by Ofgem.

SGN is committed to supporting these efforts and will coordinate with industry wherever possible. However, we must prioritise our involvement to those areas of most significance or needing immediate relief and we are dependent upon the guidance of central government and Ofgem. A holistic view of the most appropriate measures must be taken to ensure we, and industry, are promoting the most economically sound proposals as part of the wider government response.

#### Lifespan of Modifications

The legal text<sup>3</sup> accompanying this suite of urgent COVID-19 modifications relates to the Coronavirus Act 2020, specifically in reference to Schedule 22 Part 2 *Powers to issue directions relating to events, gatherings and premises in England*, with equivalent powers replicated in Scotland (Part 3) and Wales (Part 4).

Schedule 22 provides powers for the Secretary of State to make declarations<sup>4</sup> imposing prohibitions or restrictions on the availability, access and use of premises<sup>5</sup>, forming the basis of the current<sup>6</sup> lockdown arrangements. The introduction of these arrangements has had an impact on gas demand on an initially unpredictable, and we hope temporary, basis before returning to otherwise expected<sup>7</sup> levels as the arrangements are lifted. The phasing of the lockdown easement may impact the speed of this return to otherwise expected demand.

While the Coronavirus Act is in force for a period of two years with possible extensions of 6 months<sup>8</sup>, there is a clear intention that Schedule 22 will not apply in full for the same duration. This limited lifespan is reflected in the modifications' legal text drafting through definition of the "Relevant Period" relating to Schedule 22 declarations and revocations<sup>9</sup>. SGN supports this approach, as the intention of the modifications is to facilitate rapid and short-term arrangements to alleviate the initial unexpected lockdown period, however considers that future declarations, and any intervening periods, may not require the same response. It is also possible that future declarations could impose arrangements which remain in place after consumption has returned to otherwise expected levels.

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<sup>2</sup> Ofgem have published clear guidance to industry participants through letters and prioritisation <https://www.ofgem.gov.uk/publications-and-updates/coronavirus-covid-19-links-key-guidelines-and-industry-led-commitments>

<sup>3</sup> At the time of responding, the legal text refers to the Coronavirus Act 2020, Schedule 22. The restrictions placed upon businesses and population as defined by The Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 also create the trigger for potential significant changes in demand, therefore while our comments for the purposes of this response relate to the Coronavirus Act 2020 referenced by the legal text, they also apply to the initial directions issued under the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and/or the Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020, enacted on 26<sup>th</sup> March 2020.

<sup>4</sup> Coronavirus Act, Sch.22 3(3)

<sup>5</sup> Coronavirus Act, Sch.22 6

<sup>6</sup> As implemented in March 2020

<sup>7</sup> For the purposes of this response, where we refer to 'otherwise expected' demand, we refer to pre-COVID-19 lockdown demand, and the demand which would otherwise be expected to occur at a comparable point in the year

<sup>8</sup> Coronavirus Act, s.89 and s.90

<sup>9</sup> Sch.22 3(2)

At the point of consultation, the definition of “Relevant Period” is included in the legal text of modification 0721 with references included in the legal text of modifications 0722, 0723 and 0724. The latter three modifications do not include an explicit definition. At the UNC Distribution Workgroup on 23<sup>rd</sup> April 2020 it was acknowledged and agreed that the definition applies to the full suite of modifications and therefore, should modification 0721 not be implemented, an amendment would be made to UNC text to include the definition where implementation of the remaining modifications so requires.

### Modification Development

This suite of urgent COVID-19 modifications has progressed according to an urgent timetable in response to an emergent issue. As such, it has not been possible to fully develop and include provisions relating to more detailed elements of the solution. Collaborative industry discussions through the UNC Distribution Workgroups held on 14<sup>th</sup> and 23<sup>rd</sup> April 2020 demonstrate a clear and unified commitment to developing the changes pragmatically and implementing them quickly and in good faith, acknowledging the requirement for subsequent work packages to define practical application, monitoring and exit arrangements. Within the latter workgroup, Xoserve indicated an intention to facilitate an imminent follow-on workgroup to guide industry on the detail of these work packages, which SGN welcomes.

Due to the short timescales, SGN has not been able to undertake any of the detailed analysis to quantify the impacts of these modifications that it would normally undertake. Furthermore, the modifications do not provide any data to establish the likely take up of the proposed solutions. Accordingly, the impacts of these modifications are not quantified and will not be fully recognised for some time after their introduction. If these modifications have a significant impact on transportation revenues it may be necessary to accommodate this through a mid-year tariff review.

### Evidence Requirements

This suite of urgent COVID-19 modifications enables certain activities to be taken which are a direct result of the COVID-19 lockdown. As such, shippers are required to provide evidence to demonstrate the causal link between the lockdown and the alleviation actions required. Furthermore, they are required to ensure that any replacement AQ or meter read values are accurate. While the modifications do not define an accuracy test or the evidence required, initial discussions with Xoserve have made reasonable suggestions as to appropriate information to be provided, and SGN welcomes industry’s cooperation in this regard. For example, the Performance Assurance Committee<sup>10</sup> (PAC) already receives reports which overlap with the proposals, and we would expect this forum to extend their existing reporting and monitoring and encourage the right behaviours in relation to those modifications which impact settlement.

### Modification-specific Comments

#### 0721: Shipper submitted AQ Corrections during COVID-19

SGN opposes this modification as it negatively impacts relevant objectives<sup>11</sup> b) *coordinated, efficient and economic operation of the combined pipe-line system* and d) *securing of effective competition between relevant shippers [and] suppliers*, as it has a significant impact on the recovery of transportation capacity charges and the customer demographic to which they are applied. While we do not support the proposed solution, we do support the intention of the modification to provide relief to customers whose energy requirements no longer reflect their forecast allocation during the COVID-19 period.

As drafted, the modification seeks to address shippers’ licence obligation *“to ensure that its offtakes of gas from a transporter’s pipe-line system and its deliveries of gas are equal”*. The modification recognises that where sites have experienced a change in demand but are unable to reflect this through their AQ, shippers would still be required to purchase energy to satisfy the latter value even though this may no longer be accurate. Furthermore, the variation between forecast requirements and actual demand will contribute to UIG. As such, this modification intends to improve energy allocation and therefore reduce overall costs in the industry<sup>12</sup>.

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<sup>10</sup> We welcome the initial discussions already held in the PAC meeting of 20<sup>th</sup> April 2020

<sup>11</sup> Standard UNC Relevant Objectives as defined in Standard Special Condition A11(24)(a) of the Gas Transporter licence

<sup>12</sup> Note that an annual review of Supply Point Offtake is already undertaken by GDNs, with recommendations made to shippers to refine their bookings to reflect the previous year’s consumption while minimising capacity charges incurred. At the time of responding, this review is underway and will shortly be communicated to shippers.

SGN supports this intention and acknowledges the impact which COVID-19 may have on consumers' gas use. However, we have concerns that the modification as drafted will create significant unintended consequences, as the problem statement and the resolution are not aligned – the issue identified relates to energy purchase while the solution<sup>13</sup> proposes amends capacity reservations. The actual impact of the solution will be to introduce a potentially significant reduction in the total transportation costs for one consumer segment which could be to the detriment of other consumer segments.

Specifically, our concerns relate to the potential significant reduction in industrial and commercial AQs at the exclusion of EUC 1 or daily metered sites. Such a movement in AQs would have a distributional impact of providing immediate relief to the I&C customer base, with capacity charges being recovered in future from the domestic sector. We think such distributional impacts need to be considered very carefully to ensure that they are aligned with government policy intention in a strategic and holistic manner.

We note that the solution proposed under modification 0722 specifically targets energy allocation and commodity charging. As such the stated objectives of modification 0721 we feel could be more effectively achieved through use of, or an adjustment to, the modification 0722 proposal.

This is of particular concern in relation to AQ corrections, where the potential impacts are significant but there is no clear understanding of how the arrangements would be revised as the COVID-19 period eases. It should be noted that, following a correction, the AQ is not automatically updated for a period of 9 months, and therefore should Users be unable to revise AQs back to expected levels, any meter readings would only incrementally adjust the value over a nearly two-year period. Without clear exit arrangements there is a risk that the impact of AQ corrections may remain in place without reflecting the wider economic recovery.

In a scenario where it takes up to two years for AQs to fully return to their appropriate level, or there is a sharp initial adjustment, this will have a material impact on transportation revenues which, whilst recovered through the two-year lag, would require the Gas Distribution Networks (GDN) to absorb the initial impact within their own liquidity arrangements. Should a GDN be unable to accommodate the intervening period, they may require a mid-year tariff review in the 2020/2021 year.

It should also be noted that the reason presented for the exclusion of EUC 1<sup>14</sup> is to avoid any UK Link System volume constraints. In the UNC Distribution Workgroup held on 23<sup>rd</sup> April 2020, the suggestion was raised that portfolio-based quotas could be a more effective approach to mitigating system constraints while including all customer types. Given the constraints imposed by the UK Link System, it is important that any measures are well-targeted and appropriate.

As discussed in our opening comments, while the Coronavirus Act 2020 is in place for an initial term of two years, declarations made under Schedule 22 are intended to be short-term. It is our view that should a modification with such a significant financial impact be progressed then it should be time limited to a much shorter period to accommodate the initial shock of an unanticipated imposition but should not remain open for the foreseeable future given the much greater clarity around the government's strategy. Similarly, while there is the potential for future declarations to be made, SGN would not support the application of modification 0721, as experience and data from the initial Relevant Period would be available to inform future management strategies.

In relation to the proposed solution, the 0721 legal text states that a correction will “*include reasonable evidence to demonstrate the impact of COVID-19 on gas consumption during the Relevant Period*”. As per our opening comments, while the nature of this evidence has not been defined, we would expect it to demonstrate communication with the end consumer and justification of the new AQ required.

The potential magnitude and longevity of the arrangements is under-developed. While SGN is of the view that the intention of the modification is sound, the wider impacts have not been sufficiently identified and evaluated to allow the solution to be implemented.

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<sup>13</sup> In the UNC Distribution Workgroup on 14th April 2020, Xoserve presented potential measures to address COVID-19 impacts, from which this proposal was developed. Xoserve's materials highlighted the potential impacts upon transportation revenue and tariffs, however, in the UNC Distribution Workgroup on 23rd April 2020 it was acknowledged that the modification does not address these consequential impacts, likely due to the short development timescales available.

<sup>14</sup> We note that during the 2008 financial crisis, urgent modification 0275 was raised, which applied to Daily Metered sites. The 0275 and 0721 proposals differ in application, duration and technical UK Link Systems solutions. <https://www.gasgovernance.co.uk/index.php/0275>.

0722: Allow Users to submit Estimated Meter Reading during COVID-19

SGN supports this modification as we consider the proposal furthers relevant objective d) *securing of effective competition between relevant shippers [and] suppliers*.

SGN acknowledges that the manual collection of meter reads will be reduced during the lockdown period, with this expectation reflected in Ofgem's letter<sup>15</sup> to suppliers, which states *"We understand that suppliers may temporarily deprioritise all other reasons for visits, including: collecting accurate meter reads"*.

This modification applies to all class 3 and 4 customers covering domestic and I&C customers. For a large number of these customers actual meter reading through self-read should still be possible and should be encouraged. Where a site is unable to be accessed then existing profiles should be used as far as possible to generate an estimated read, and it is only where there is evidence of a significant divergence from these existing profiles that we think an alternative estimate should be used. As such we would expect that the potential take-up of this modification would be a reasonably small proportion of the NDM population.

From our reading of the modification as proposed, we understand that estimated reads submitted as actuals to UK Link Systems will also be used for the purposes of customer billings, as we note that the customer impact section<sup>16</sup> of the modification states *"Though customer consumption is not being truly represented in the system, we expect that customer billing will continue on estimated readings, so no direct impact on customers"*. In our interpretation, we consider there would be a benefit to customers as their bills would be based on a more reflective usage. While we acknowledge that this may result in customers receiving higher or lower bills than would be otherwise expected, we would anticipate alignment between reads as if, in the User's reasonable opinion as above, a more accurate estimated reading is available for submission to central systems then it is surely appropriate that this same reading should be applied to the customer.

We consider such an approach to be consistent with the statement included in the above referenced Ofgem letter, which states that *"Suppliers have agreed with BEIS to support domestic customers who may be financially impacted by COVID-19 and this should frame their approach to bills, payment and supporting prepayment customers to stay on supply"*. We also note that the gas supplier licence states that *"If a Customer provides a meter reading to the licensee that the licensee considers reasonably accurate, or if the Gas Meter is read by the licensee, the licensee must take all reasonable steps to reflect the meter reading in the next Bill or statement of account sent to the Customer."*<sup>17</sup> The calculation of estimated reads in modification 0722 is a clear proxy for the process which the licence describes.

We note that the legal text requires that reads are based upon *"the User's reasonable estimate of the expected Metered Volume off-taken"* with business rule 2 highlighting the expectation that this read *"must reflect as closely as possible the site's estimated consumption for the period covered by the meter reading"*. It is critical that accurate estimates are based on communication with, and information provided by, the customer. Should it transpire that reads have unintentionally been under- or over-estimated, we would encourage shippers to submit replacement reads. While we note that modification 0722 applies to NDM sites we are unable to predict the anticipated use and consequences of the proposed functionality.

By maintaining a record of estimated reads submitted (business rule 3), it will be possible in future to establish through a cross-match with UK Link records which actual reads were estimated under the provisions of this modification. We support the retention of such records in order that, should any unintended consequences arise as a result of submitting estimated actual reads, this reconciliation is possible. It is important that following expiry of the Relevant Period, a true actual read should be provided as soon as reasonably practicable, to allow UK Link Systems to reconcile. We would welcome reporting and monitoring to be undertaken by PAC in this regard.

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<sup>15</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier_letter.pdf)

<sup>16</sup> Page 5

<sup>17</sup> Gas Supplier Licence Condition 21B.1

0723: Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period

SGN supports this modification and considers it furthers relevant objectives a) *economic and efficient operation of the pipeline system* and d) *securing of effective competition*.

This modification enables users to reflect a significant decrease in demand, with a pragmatic amendment to the isolation rules acknowledging that there may be some residual consumption<sup>18</sup> required even if operation has ceased.

By utilising the isolation flag, consumers are able to exclude what is anticipated to be an exceptional period of demand from energy allocation, avoiding the creation of UIG. By excluding the period from AQ calculation, this creates more stable arrangements at the point of re-establishment and maintains more consistent transportation capacity charging. We welcome Xoserve's intention to work with shippers to re-establish supply points at the earliest available opportunity and would expect the PAC to undertake relevant monitoring activities. While we note that modification 0723 applies to DM and NDM supply points, we are unable to quantify the likely population of isolated supply points as a result of this modification.

0724: Amendment to Ratchet charges during COVID-19 period

SGN supports this modification and considers it furthers relevant objective a) *economic and efficient operation of the pipeline system*.

As per our opening comments, the Coronavirus Act 2020, and particularly the lockdown arrangements facilitated by declarations under Schedule 22, were implemented rapidly and unexpectedly. As such, those premises which have re-purposed their activities are likely to have done so with little notice or ability to predict future demand. This also creates a consequential increase in the SOQ to reflect increased consumption which, while accurate for the duration of the re-purposed activities, may require correction once normal operation resumes.

As discussed, the initial emergence of COVID-19 in March 2020 and subsequent Schedule 22 declaration was sudden and unexpected. As such, SGN is of the view that relief from ratchet charges is appropriate for the Relevant Period within the 19/20 ratchet period<sup>19</sup> as the impacts of COVID-19 were sudden and unpredictable. However, we consider that such relief would not be appropriate in future ratchet periods, irrespective of any declaration under Schedule 22, as any consequential impact would be more well-known and predictable. As such we would not expect the modification to apply to any future ratchet periods and if it were in place would anticipate a higher threshold of evidence as to why a capacity application could not have been foreseen and submitted.

We expect the population of eligible sites under modification 0724 to be relatively small, as the modification is limited to settlement class 1 and would only apply to those sites in receipt of a ratchet charge.

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

Given the intention for the modifications to provide rapid and pragmatic relief from COVID-19 related challenges, we welcome Ofgem's intention to issue a decision on 1<sup>st</sup> May 2020 and anticipate implementation will follow as soon as reasonably practicable.

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

As above, the modifications have progressed according to an urgent timetable and as such impacts cannot be fully assessed.

As per our comments relating to modification 0721, we anticipate a significant impact upon transportation revenue which, if implemented, could impact our own liquidity arrangements and may not be recovered for a two-year period or could be subject to a mid-year tariff review.

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<sup>18</sup> De minimus level defined as  $\leq 2.5\%$  of the average quantity of gas off-taken (on the basis of seasonal normal demand) at the Supply Meter Point in the sixty (60) day period ending on the day prior to the commencement of the Relevant Period

<sup>19</sup> Ratchet period runs from 1<sup>st</sup> October to 31<sup>st</sup> May each year

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

Legal text has been drafted as transitional text to compliment the otherwise normal application of UNC. Given the urgent modification timescales, the text reflects the modifications' business rules at a high, rather than detailed level. As such we are satisfied that the text delivers the intent of the solutions, however acknowledge that further activity beyond that defined in the text will be required to ensure successful implementation and operation of the proposed measures.

As per footnote 3, at the time of responding, the legal text refers to the Coronavirus Act 2020, Schedule 22. The restrictions placed upon businesses and population as defined by The Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 also create the trigger for potential significant changes in demand, therefore while our comments for the purposes of this response relate to the Coronavirus Act referenced by the legal text, they also apply to the initial directions issued under the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and/or the Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 enacted on 26th March 2020.

**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.*

As above, the modifications have been developed according to an urgent timescale and as such are drafted at a high, rather than detailed, level. Industry acknowledges that further activities will be required to ensure successful application of the proposals in addition to defining smooth exit arrangements.

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

As per our opening comments, due to the short development timescales SGN has not been able to undertake any of the detailed analysis to quantify the impacts of these modifications which we would normally undertake. Furthermore, the modifications do not provide any data to establish the likely take up of the proposed solutions. As such it has not been possible to undertake analysis to quantify the impact of these modifications and potential impacts will not be fully recognised for some time after their implementation.