

Representation - Modification UNC 0725 (Urgent)

Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19

Responses invited by: 5pm on 13 May 2020

To: enquiries@gasgovernance.co.uk

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

Representative:	Oorlagh Chapman
Organisation:	Centrica
Date of Representation:	13/05/20
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) None</p> <p>Providing relief for certain users for a few months before reverting to the previous capacity levels is unlikely, in practice, to affect the efficient and economic operation of the system.</p> <p>d) Negative</p> <p>The effect of the modification is to move the liability that sits with one set of users to a different set of users. The justification for this is not addressed within the modification and alternative solutions could avoid this cross-subsidy. Any unjustified cross-subsidy must be considered negative in terms of effective competition.</p>

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

It is right to assess whether parties should get relief from network charges at this time, and what the terms should be for such relief. However, whilst we also recognise the urgency of the situation, this is not the correct or appropriate solution for the issue it seeks to address. It appears to be built on a misunderstanding of what capacity charges reflect (annual peak daily load) and so is not a coherent modification. We note that Ofgem, when commenting on being unable to make a decision on UNC0721, mentioned: *other initiatives being considered to address the impacts of the COVID-19 crisis*. It would be preferable for this issue to be considered in a measured way as part of a wider assessment of those other initiatives, rather than through a 'back-door' route by changing industry rules without proper justification and limited industry scrutiny.

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

N/a

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

N/a

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

N/a

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

Misunderstanding of what capacity charges reflect:

The modification proposes that certain users can ‘*submit reductions to SOQ values to the CDSP to better reflect their gas network use during this summer*’. However, the liability for capacity charges relate to *annual* peak daily load. Lockdown is unlikely to have any significant impact on the annual peak daily load of most sites as these will typically occur during the winter period. Therefore, for the majority of sites the peak daily load will have already occurred for gas year 2019/20. For 2020/21 the proposal explicitly seeks to revert to the Registered DM Supply Point Capacity value that was applicable on 30 April. Therefore, the proposal does not appear to envisage any change in observed annual peak daily loads as a result of the lockdown, and so offers no coherent justification for reducing the annual liability (associated with these peak daily loads).

Modification 0275 has important differences to this modification and so claiming as a precedent is unhelpful and potentially misleading.

This Modification 0725 cites previous Modification 0275 as providing precedence for this change, claiming that it was a similar intervention. However, there were important principles and protections in Modification 0275 which this Modification 0725 does not contain.

For example, in UNC Modification 0275 there was a requirement to obtain and provide a signed letter of consent from the relevant end consumer stating the anticipated peak daily load for the whole of the current Gas Year and the next Gas Year, the reason for the change in peak daily load, and that gas will continue to be offtaken (otherwise Isolation and Withdrawal terms would apply).

Therefore, Modification 0275 still recognised the concept of annual peak daily load and sought to ensure that only those that were genuinely experiencing a reduction in gas offtake and that expected this to endure over the following gas year would make use of the arrangements. This Modification 0725, by contrast, seeks to create the ability to temporarily reduce capacity to a level that will be explicitly below the level that is expected to be required in the following gas year.

Also, under the Modification 0275 arrangements, if a customer chose to reduce its capacity on the distribution network, it would no longer have any rights over that relinquished capacity. This Modification 0725, by contrast, explicitly seeks to maintain the rights to the capacity held prior to any reduction.

As Ofgem recognised in its Decision on Modification 0275:

The proposals do not represent a fundamental shift from the current arrangements, and simply bring forward the capacity reductions that would be allowed under the current arrangements in the following gas year.

It is clear that this does not apply to the current modification, which is a fundamental change to current arrangements whereby a subset of users can temporarily reduce capacity (and associated charges) to a level which is below: the previous year's peak daily load; the current year's peak daily load; and next year's expected peak daily load – whilst maintaining the rights associated with its pre-adjusted capacity.

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

Areas where there appear to be stronger justifications for intervention seem to be specifically excluded from the modification:

1. Some sites peak in the summer, so the 2019/20 daily peak will be affected;

In the case of sites which peak in the summer, the modification explicitly excludes Seasonal Large Supply Meter Points – despite such sites potentially having a more genuine case for intervention as they are required to nominate their summer peak by 1 March.

2. Some sites won't fully recover after lockdown and will require a lower Registered DM Supply Point Capacity on an enduring basis;

If a site is unlikely to fully recover after lockdown it might be appropriate, in such exceptional circumstances as these, to consider bringing forward the Capacity Reduction Period start date to allow sites to reflect their new expected enduring level of peak demand post-lockdown. However, the modification explicitly states that the Registered DM Supply Point Capacity will revert to the old levels on 1 October, and so is not seeking to bring forward the start date of the Capacity Reduction Period.

To be clear, to avoid undue discrimination, any bringing forward of the start date for the Capacity Reduction Period would need to be accompanied with appropriate protections – for example if the site subsequently sought to increase its registered capacity again for either the 2019/20 or 2020/21 gas years then Capacity Reconciliation Charges would need to apply, fully backdated to the period of the initial reduction in 2019/20.

Whilst we recognise the urgency of the situation, there are significant problems with this modification that would have been better addressed by further development, including

through industry discussion, before reaching this stage. Similar views were expressed by ourselves, and others, relating to UNC0721 and consideration should be given to how the industry can make improvements in this regard.