

## Representation Draft Modification Report

### Modification 0746 - Application of Clarificatory change to the AQ amendment process within TPD G2.3 from 1st April 2020

1. **Consultation close out date:** 9<sup>th</sup> July 2021
2. **Respond to:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)
3. **Organisation:** Gazprom Energy  
5<sup>th</sup> Floor  
8 First Street  
Manchester  
M15 4RP
4. **Representative:** Steve Mulinganie  
Regulation Manager  
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0799 097 2568 or 0751 799 8178
5. **Date of Representation:** 9<sup>th</sup> July 2021
6. **Do you support or oppose Implementation:**  
We **Support** implementation of the Modification
7. **Please summarise (in 1 paragraph) the key reason(s) for your position:**  
Gazprom Energy raised this modification to address undue detriment to other Shippers, Suppliers and Customers as a result of a Shipper(s) utilising an existing Annual Quantity (AQ) amendment process, put in place to cover **exceptional eligible circumstances**, when a “**new**” Shipper takes over a Supply Point.

This process was utilised during the pandemic (COVID-19) at a time when the industry was seeking Ofgem’s support on specific relief from, amongst other issues, certain aspects of charging. As noted by Xoserve in its paper “Impacts of Lockdown” the Uniform Network Code (UNC) sets out the eligible reasons for AQ amendment and **COVID-19 Lockdown does not meet any of these eligible causes**”.

Ultimately Ofgem did not approve any modifications (see below) that would allow either the AQ or Supply Offtake Quantity (SOQ) of any Supply Point to be reduced as a result of COVID-19.

## Retrospection

We believe it is appropriate to apply this modification retrospectively or else other Shippers, Suppliers and Customers will end up paying extra as the shortfall in Transporter revenue as a result of these AQ amendments, estimated at £10m, will be mutualised.

When considering Ofgem advice on retrospection. We believe this modification falls within scope of: -

*“a situation where the fault or error giving rise to additional costs or losses was directly attributable to central arrangements”*

As the Shipper(s) were able to make the AQ amendments during the pandemic despite the stated position that COVID-19 was not a relevant event.

The AQ amendments were not exceptional and no “new” Shipper existed but instead a technical transfer of Supply Points had occurred between two Shipper ID’s under the “control” of the same organisation or an affiliate.

## 8. Is there anything further you wish to be taken into account?

*Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.*

**Yes**

As the significant short to medium term impact of the Pandemic became clear the industry met on 14<sup>th</sup> April 2020 to discuss potential changes to the Uniform Network Code (UNC) to provide specific COVID-19 relief to market participants. As part of these discussions the ability to reduce Supply Points Annual Quantities (AQ) and System Offtake Quantities (SOQ’s) were discussed and **it was made clear that no existing route existed to reduce either the AQ or SOQ as a direct result of the consequences of COVID-19.**

Based on this clarification the industry discussed a number of potential remedies that could be developed to provide various forms of relief. As a result of these discussions the industry then took forward these proposals through a number of industry modifications:

The table below shows those proposals that were developed into Modifications and the scope of those modifications and whether they were approved or rejected by Ofgem. We would note that as a result of some modifications being rejected further Modifications were subsequently raised which sought to address the concerns raised by Ofgem which resulted in their rejection.

Modification	Date Raised	Summary	Ofgem decision
721 - Shipper submitted AQ Corrections during COVID-19	21Apr20	Allowed AQ's to be amended	<b>Rejected 2Jun20</b>
722 - Allow Users to submit Estimated Meter Reading during COVID-19	21Apr20	Addresses inability to access sites to read	Approved 11May20
723 - Use of the Isolation Flag to identify sites with abnormal load reduction during COVID-19 period	21Apr20	Removes Commodity Risk for zero/low consuming sites	Approved 11May20
724 - Amendment to Ratchet charges during COVID-19 period	21Apr20	Removes Ratchet Charges	Approved 11May20
725 Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19	5May20	Allows SOQ to be amended	<b>Rejected 29May20</b>
726 COVID-19 Liquidity Relief Scheme for Shippers	3Jun20	Defers Jul-Sep invoices in specific circumstances	Approved 23Jun20
730V COVID-19 Capacity Retention Process	3July-20	Introduces a 50% reduction in LDZ Capacity Charges	<b>Rejected 19Mar21</b>

As can be seen from the summary above **all of the modifications that sought to provide relief by allowing parties to amend either the AQ or SOQ were rejected by Ofgem.**

As a result of concerns raised over the use of the AQ Amendment process we would note Transporters acted to add additional clarity to the UNC, via Modification 736S in relation to the use of the AQ amendment process following a switching event.

**9. Self-Governance Statement Do you agree with the status?  
Not Applicable**

**10. Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

We **agree** that this modification is positive in respect of **Relevant Objective d** as correcting the under payment of relevant Capacity Charges by relevant User(s) then the cross subsidy arising to other Users would be removed, thereby furthering Relevant Objective d). The application of this modification would ensure that costs are targeted more accurately than is currently the case, and appropriate cost targeting is a positive in terms of promoting competition between suppliers

We **agree** that this modification is positive in respect of **Relevant Charging Objective c** as by applying these arrangements retrospectively from the 01 April 2020 and remedying the detrimental transfer of costs, (estimated for Cadent at £3.9m for revenues in 2020/21 but also financially impacting other Networks), to other Users arising from the use of these arrangements by a User which will ultimately be borne by consumers. It further improves cost reflectivity of capacity charges by better aligning them with a customer's actual system usage, thereby furthering competition between Shipper and Suppliers.

#### 11. Impacts & Costs:

*What analysis, development and on-going costs would you face if this modification was implemented?*

We **have not** identified any significant costs associated with the implementation of this modification

#### 12. Implementation:

*What lead times would you wish to see prior to this modification being implemented, and why?*

We would like to see the modification **implemented ASAP** but note its dependency on the CDSP's solution being implemented

#### 13. Legal Text:

*Are you satisfied that the legal text will deliver the intent of the modification?*

We are satisfied with the Legal Text provided and would note the Workgroup agreed the Legal Text delivers the intent of the modification.

#### 14. Are there any new or additional Issues for the Modification Report:

**Yes**

**Modification Panel Members have requested that the following question is addressed:**

Q1. Do Transporters have a view as to when the additional revenue would flow back to users; would this be within the Formula Year, (FY), it is collected or during the FY following collection?

Not Applicable

Q2. Reasoning behind 01 April 2020 retrospective date?

The Workgroup discussed the optimum date for implementation recognising the aspiration to minimise the scope of any retrospection as much as reasonably practicable. Based on analysis provided (see below) there was no evidence of any historic equivalent activity associated with the AQ amendment process and thus the date was determined to target as closely as possible the period were issues addressed in this modification had been identified.

**Taken from September Workgroup 0736A:**

*Rose Kimber (RK) sought clarification on the retrospective element and asked what the reason for the date being 01 April 2020, adding there is potential that this reason code could have been utilised previous to 01 April 2020.*

*GE advised that reversing changes to AQ amendments outside of the current gas year has wider impacts on both the fixed and rolling AQs.*

SM requested CDSP to investigate AQ reason code 3 to see if there is any evidence of high usage over period to prior the period in set out in the Modification.

<p><b>New Action 1101:</b> CDSP (DA) to provide data with regards to the numbers of reason code 3 AQ amendments to see if there are any spikes in the data prior to 01 April 2020.</p>
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Extract from the December Mod 746 Work Group Minutes

**1.3. Review of Outstanding Actions**

**Action 1101:** CDSP (DA) to provide data with regards to the numbers of reason code 3 AQ amendments to see if there are any spikes in the data prior to 01 April 2020.

**Update:** Dave Addison provided an overview of the analysis completed to address this action. He advised that the typical monthly volume of AQ Corrections (Reason Code 3), is around 100 per month. He said there was a significant spike in Reason Code 3 amendments during May 2020, (noting that the modification period of look-back was back to April 2020). The number of corrections during May 2020 was circa 2,000.

Looking further back, the only other significant spike that could be identified was May 2018, and reiterated that the normal volume of Reason Code 3 amendments is 100 per month.

Steve Mulinganie (SM) clarified, on the basis of the information provided, he is not minded to change the retrospection date from April 2020.

Guv Dosanjh (GD) agreed that on the basis of the information provided, the retrospection date of April 2020 was appropriate and asked AR to ensure this view is stated in the Workgroup Report to ensure that Ofgem are assured that retrospection date aspect of the Modification has been considered. **Closed**