

Modification proposal(s):	<p><b>UNC722 'Allow Users to submit Estimated Meter Reading during COVID-19';</b></p> <p><b>UNC723 'Use of Isolation Flag to identify sites with abnormal load reduction during COVID-19 period'; and,</b></p> <p><b>UNC724 'Amendment to Ratchet charges during COVID-19 period'</b></p>		
Decision:	The Authority <sup>1</sup> directs that these modifications be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	11 May 2020	Implementation date:	To be confirmed by the Joint Office

## Background

COVID-19 presents a serious challenge for the energy industry to tackle on behalf of the homes and businesses that depend on the sector for gas and electricity. The 'lock down' of non-essential sectors of the economy, the re-purposing of some sites, and changes in consumer behaviour means energy consumption is varying from season normal patterns to an unprecedented extent. This is having a consequential impact throughout the energy supply chain.

Against this backdrop a specially convened session of the UNC Distribution workgroup was held 14 April 2020 to consider the likely impacts of COVID-19 on the UNC arrangements and potential mitigating actions. From those discussions initially four modification proposals<sup>3</sup> emerged from those discussions.

On 22 April 2020 we agreed that those four UNC modification aimed at mitigating the impacts of COVID-19 should follow an urgent timetable.<sup>4</sup> We subsequently granted urgent status to the fifth proposal which has also emerged from the result of discussions at UNC Distribution Workgroup on 14 April 2020, UNC725<sup>5</sup>. We acknowledge and appreciate the efforts of all who have contributed to the development of these proposals to date.

Although we understand the continuing urgency of the issues each of the proposed UNC modifications seek to address, it is important we make a robust and fully informed decision. We are continuing to consider the particular issues raised by UNC721, including those relating to the post-implementation monitoring and return to normal AQ values, as highlighted by industry respondents and included in the Final Modification Report (FMR). As such we are only in a position to make a decision on UNC722, UNC723, UNC724 at this time, and this letter only addresses those modifications.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> UNC721 'Shipper submitted AQ Corrections during COVID-19'; UNC722 'Allow Users to submit Estimated Meter Reading during COVID-19'; UNC723 'Use of Isolation Flag to identify sites with abnormal load reduction during COVID-19 period'; and UNC724 'Amendment to Ratchet charges during COVID-19 period'.

<sup>4</sup>[https://www.ofgem.gov.uk/system/files/docs/2020/04/200422\\_unc\\_mods\\_covid19\\_urgency\\_002.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/200422_unc_mods_covid19_urgency_002.pdf)

<sup>5</sup> UNC725: 'Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19'

## The modification proposals

The modification proposals are proposing temporary changes to the UNC rules for the duration of the COVID-19 period, with the relevant period being defined by reference to applicable legislation and government mandated restrictions:

- UNC722 '*Allow Users to submit Estimated Meter Reading during COVID-19*' proposes to allow shippers to submit estimated meter readings for certain sites during the COVID-19 pandemic. This is in recognition of the fact that much of the routine cyclic meter reading activity has currently ceased, and in some cases remote meter reading may not be possible, and yet consumption patterns are known to have changed significantly.
- UNC723 '*Use of Isolation Flag to identify sites with abnormal load reduction during COVID-19 period*' proposes to allow shippers to use the existing 'isolation flag' process to change the status of the Supply Point on the central system. Currently the 'isolation flag' process requires relevant shippers to warrant that certain on-site works have been completed to warrant that the Supply Point has ceased consumption of gas. UNC723 proposes to temporarily waive that requirement. It is further proposed that this status be available for sites which may still be consuming a minimal amount of gas rather than requiring an absolute cessation due to 'lock down' restrictions. This would temporarily exempt that Supply Point from gas allocation, nomination and the application of certain charges.
- UNC724 '*Amendment to Ratchet charges during COVID-19 period*' proposes to waive the application of ratchet charges for certain sites. Ratchet charges are aimed to incentivise certain booking behaviour by shippers so that relevant transporters can ensure sufficient capacity is available to safely meet demand to relevant sites in certain conditions. The proposer considers that for some sites it would be appropriate to amend application of ratchet charges due to the pace of events, and changes in site use. In particular, those sites whose consumption has increased in response to COVID-19, for example medical facilities including newly created temporary hospitals, food producers, and manufacturers of medical supplies or other relevant equipment. It is proposed that this be retrospective to 23 March 2020 to align with announcement of the beginning of 'lock down'.

## UNC Panel<sup>6</sup> recommendation

At the UNC Panel meeting on 30 April 2020 the UNC Panel voted unanimously to recommend the implementation of UNC722, UNC723 and UNC724.

## Our decision

We have considered the issues raised by the modification proposals and the FMR dated 30 April 2020. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>7</sup> and concluded that:

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<sup>6</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>7</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

- implementation of the modification proposals will better facilitate the achievement of the relevant objectives of the UNC;<sup>8</sup> and
- directing that the modifications be made is consistent with our principal objective and statutory duties.<sup>9</sup>

### **Reasons for our decision**

These proposals have been developed together as suite of potential measures that a Gas Shipper may utilise in order to expedite the recognition within central systems of significant changes to certain Supply Point's gas requirements by COVID-19 restrictions or requirements. In most cases this will stem from the rapid and unforeseen reduction in gas demand during the current lock-down.

The gas allocation arrangements rely heavily upon the accuracy of the prevailing Annual Quantity (AQ) for each Supply Point as an indicator of likely demand. The AQ value is itself derived from historic meter readings and therefore its accuracy will be heavily dependent upon how frequently and recently the relevant Gas Shipper has submitted valid meter reads to the Central Data Service Provider (CDSP). Gas Shippers to Non-Daily Metered (NDM) Supply Points will be allocated gas initially on the basis of the prevailing AQ. Whilst these allocation volumes will be revised as further meter reading are submitted and reconciliation takes place, the initial variance can lead increased volumes of Unidentified Gas (UIG).

Even under normal circumstances, UIG can lead to an inaccurate allocation of cost amongst Gas Shippers and is therefore appropriately kept to a minimum. There have been several UNC modifications in recent years aimed at achieving this reduction in UIG. The current 'lock-down' associated with the COVID-19 exacerbates the UIG problem in two ways. Firstly, reduced economic activity and commensurate demand for gas is not being reflected in the initial AQ-based allocation of gas. Secondly, it may be harder to obtain the valid meter reads that would allow the gas allocation to be reconciled against actual consumption. Gas Shippers are therefore exposed to the cost of energy which their own customers may not be consuming, and will remain so until reconciliation occurs.

Both UNC722 and UNC723 seek to provide Gas Shippers with opportunity to reduce their exposure to charges sooner than would be possible under prevailing UNC rules. UNC724 seeks to address a contrasting problem, with the re-purposing of a Supply Point and associated increases to short term gas demand. Each are discussed further below.

### **UNC722 'Allow Users to submit Estimated Meter Reading during COVID-19'**

Of the 23 responses the Joint Office received to this proposal, 18 supported implementation, two were not in support, and three provided comments. We agree with the UNC Panel – who voted unanimously to recommend implementation - that the implementation of UNC722 will better facilitate relevant objective *(d) securing effective competition between Gas Shippers*, and has a neutral impact on the other objectives.▬

<sup>8</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>9</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

As noted above, Gas Shippers are liable for any gas allocated to their registered Supply Points, including an allocation of UIG. These allocations are subsequently reconciled as actual meter readings are submitted. However, as the proposer, Gazprom, notes, COVID-19 is making it more difficult to obtain meter readings from many sites. This is due both to the closure of many commercial premises and restrictions on the availability and/or re-prioritisation of industry parties' own staff. The proposer further notes that this will lead to delays in reconciliation and prolong the period in which gas is being allocated to supply points which is not reflective of their actual consumption during this period of inactivity.

In some cases, we agree that the submission of estimated reads will enable the energy allocation to relevant Supply Points to be reconciled to actual usage quicker than would otherwise be the case. We therefore agree that this modification better facilitated objective (d) as it will improve the accuracy of cost allocation.

However, while we agree that the current circumstances will make it more difficult to obtain a meter reading from many sites, the growing numbers of advanced meters should limit the impact of this issue. In addition to the millions of smart meters that have now been rolled out across Great Britain (GB), the Gas Supply licence<sup>10</sup> requires that no supply point with an AQ above 732,000 kWh (EUC4 and above) should have been supplied after 6 April 2014 other than through an advanced meter, being one which is capable of remote communications.

Whilst recognising that communications enabled meters are not yet universal and that technical difficulties may cause difficulties obtaining some meter readings, we nonetheless consider that the need to submit an estimated read into central systems should be an exception. In particular we would be concerned if the estimates were in any way to interfere with the subsequent submission into settlements of an actual meter read.

We are also aware that despite obligations in the Gas Supply licence to submit a meter read into gas settlement at least annually, there are many Supply Points which have not had an actual and validated meter read recorded against them for a significantly longer period. This is already an area of concern for the UNC Performance Assurance Committee (PAC) and we consider that the current concern about the accuracy of AQs provides a timely reminder of the importance of meter reads for accurate gas settlement. We have therefore indicated to the CDSP that any estimated meter reads submitted as part of UNC722 should be clearly flagged as being an estimate, and would also encourage the PAC to closely monitor and report on the use of estimated reads during this COVID-19 response and after.

### **UNC723 'Use of Isolation Flag to identify sites with abnormal load reduction during COVID-19' period'**

We note that of the 24 responses the Joint Office received to this proposal, 19 supported implementation, two were not in support, and three provided comments. We agree with the Panel that the implementation of UNC723 will better facilitate relevant objectives (a) and (d) and have a neutral impact on all other objectives.

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<sup>10</sup> Standard Licence Condition 12: Matters relating to Gas Meters

Currently, where a Supply Point is no longer consuming gas and the relevant Gas Shipper wishes to inform the CDSP of this to avoid further energy allocation, it can do so by 'isolating' the Supply Point for the purposes of the UNC. In order to do so the Gas Shipper is required to warrant that they have taken all reasonable steps to ensure that all work to cease the flow of gas has been carried out by suitably competent personnel and to provide certain information including a Valid Meter Reading.

The proposer, Northern Gas Networks, considers that restrictions on businesses and people under the Covid-19 response has resulted in some sites known not to be consuming gas, but still *capable* of consuming. Further, the restrictions often make it impracticable to arrange a site visit by a suitably competent person. As such, the Supply Point cannot currently be isolated and the Gas Shipper remains exposed to energy allocation and charges.

UNC723 therefore seeks to temporarily allow these sites to be marked, and treated as, 'Isolated' for the purposes of AQ calculations, energy allocation and UIG, without the Gas Shipper having been required to meet the conditions for physical discontinuance as currently set out in the UNC.

We also note UNC723 deviates from existing isolation practice in that it does not require absolute cessation of consumption but allows for a *de minimus* amount of consumption. This would allow the process to be utilised for Supply Points which have effectively ceased operations but may have a residual requirement to maintain plant or ancillary on-site activities.

We consider that UNC723 is a pragmatic short-term mitigation against some of the challenges facing the gas industry and should lead to the more accurate allocation of energy and transportation charges for the relevant period. To the extent that the applicable charges will be more reflective of the transporters costs, we agree that the implementation of UNC723 will better facilitate relevant objective (a) *the efficient and economic operation of the pipeline system*.

Accurate cost allocation will also have benefits for effective competition insofar as the most efficient operators will be able to offer reduced tariffs to existing and potential customers. We therefore consider that the implementation of UNC723 will therefore better facilitate relevant objective (d) *securing effective competition between Gas Shippers*.

We agree with the respondent who said that the use of the isolations flag should be carefully monitored during the relevant period. Whilst it is hoped that most Supply Points will quickly resume economic activity once the period of lock-down has ended, some may remain closed while any ongoing requirements around social distancing make their operations impracticable. Unfortunately, some companies may also not survive the current disruption. It will be important to ensure that the relevant industry parties and in particular the relevant Gas Shipper remain responsible for that site, and continue to discharge all applicable safety obligations. They will also remain liable for charges in the event that the Supply Point is subsequently found to have been consuming gas.

Although the Shipper will avoid certain commodity related transportation charges by isolating a supply point, they will remain liable for capacity based charges. In order to avoid all transportation charges, having first isolated the meter the shipper may also submit a Supply Point Withdrawal to the CDSP. The shipper ceases to be responsible for all charges only once the Supply Point Withdrawal becomes effective.

We agree with those respondents who commented that the use of the isolation flag in the absence of a warranty from a competent person should be subject to monitoring by the PAC in order to ensure that the status of all Supply Points is confirmed within a short time of the lock down ending. In some cases, this may be a confirmation of the isolated status with normal warranty of an on-site report from a competent person, or reversion to some other status in accordance with the normal UNC rules.

### **UNC724 'Amendment to Ratchet charges during COVID-19 period'**

We note that of the 20 responses the Joint Office received to this proposal, 17 supported implementation, with a further two (submitted by the same company group) providing qualified support, and one respondent providing comments.<sup>11</sup>

The respondent offering qualified support agreed with the intent of the proposal. However, they considered that ratchet charges should be removed altogether rather than the limited disapplication contained in the proposal. They also commented that they did not consider the ratchet charges to be cost reflective. As neither of these comments dealt with the specific scope of the proposal as submitted, we do not consider them to be relevant to our decision on UNC724.

Several respondents provided comments on the legal text, which was subsequently amended during the consultation process and re-submitted to the UNC Panel. However, some comments were considered to be outside of the scope of the proposal, e.g. one respondent suggested that there should be an appeal mechanism.

A ratchet charge is applied only to the relevant Gas Shipper of any Daily Metered (DM) Supply Point where gas flows exceed the registered daily capacity amount during the winter period (October-May). This ratchet charge regime is intended to incentivise accurate capacity signals, in effect deterring the Gas Shippers from setting their daily capacity requirements below what is actually needed at times when demand is at its highest. This assists the Gas Distribution Network (GDN) operators run their pipe-line systems efficiently and economically. Although this modification would only be relevant to a small number of DM Supply Points which are experiencing an unexpected increase in demand, we support the intention. We agree that it would be inappropriate for an end user and/or their Gas Shipper to be exposed to liabilities as a result of contributing to the COVID-19 response. We also consider that there is adequate capacity in the system and the constraints which ordinarily underpin the rationale for the incentive charge do not apply under the current circumstances. We therefore consider that in providing for the disapplication of any ratchet liabilities that may otherwise arise at relevant sites, UNC724 will better facilitate relevant objective (a) - *the efficient and economic operation of the pipeline system*.

Whilst we would ordinarily have concerns at a modification having retrospective effect, we recognise that there are circumstances where this may be warranted. This could include a response to circumstances that could not have been reasonably foreseen.<sup>12</sup> In this instance, we consider that it is appropriate for the disapplication of ratchet charges

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<sup>11</sup> Xoserve submitted a general response covering all four modifications but did not reference UNC724 or ratchet charges specifically.

<sup>12</sup> See: <https://www.ofgem.gov.uk/ofgem-publications/61726/ofgem-guidance-code-modification-urgency-criteria.pdf>

as proposed by UNC724 to be given retrospective effect from the start of the regulations and requirements imposed by relevant governments in response to the coronavirus.

#### Enabling revisions to legal text - Consent to Modify C058

We are aware of the interdependency in the legal text of these modifications and UNC721. Relevant definitions for all modifications we granted urgency to on 22 April 2020 (UNC721, UNC722, UNC723, and UNC724) are contained within the UNC721 legal text. As noted above we are continuing to consider the particular issues raised by UNC721 and we have not yet reached a decision on this modification.

To facilitate the timely implementation of UNC722-UNC724, under these exceptional circumstances we consider it appropriate to give our consent to Consent to Modify C058. This Consent to Modify – published alongside this notice – transposes only the relevant definitions from UNC721 into the newly created UNC Transitional Document Section VI – as proposed by all four modifications – and renumbers as appropriate text inserted by UNC722, UNC723, UNC724.

However, we remain of the view that the UNC modification process is the most appropriate route to make subsequent revisions to legal text where possible, and we expect the Joint Office and the UNC Panel to work with proposers to facilitate this for future modifications.

#### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that the following UNC modifications be made:

- UNC722 '*Allow Users to submit Estimated Meter Reading during COVID-19*'
- UNC723 '*Use of Isolation Flag to identify sites with abnormal load reduction during COVID-19 period*'; and,
- UNC724 '*Amendment to Ratchet charges during COVID-19 period*'

**Jacqui Russell**

**Head of Metering and Market Operations**

Signed on behalf of the Authority and authorised for that purpose