



Making a positive difference
for energy consumers

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
parties

Email: industrycodes@ofgem.gov.uk

Date: 3 June 2020

Dear Wanda and colleagues

UNC modification proposal UNC726: 'COVID-19 Liquidity Relief Scheme for Shippers' – decision on urgency

We¹ have received a request from Wales & West Utilities (The Proposer) that Uniform Network Code (UNC) modification proposal UNC726: 'COVID-19 Liquidity Relief Scheme for Shippers'² (hereafter "UNC726") should be given urgent status and follow expedited modification procedures. This letter confirms that we have agreed to that request, and sets out the timetable under which the modification will proceed.

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 are having a consequential impact throughout the energy supply chain.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this letter.

² Modification proposals are available at <https://www.gasgovernance.co.uk/livemods>

As set out in our recent open letter³ on managing the impact of COVID-19 on the energy market, we recognise that the consequential impacts of COVID-19 on the energy supply chain means gas shippers and suppliers may find themselves experiencing cash flow issues, which could have negative impacts on consumers.

We would expect shippers and suppliers with cash flow issues to seek to access commercial loans or the government's and Bank of England's financial support facilities.⁴ However, we are aware that the eligibility criteria and loan value caps on the schemes may prevent some shippers and suppliers from being able to meet all their liquidity needs through them alone.

We therefore asked the energy network companies, through the Energy Networks Association (ENA), to develop schemes to provide relief to cash flow-constrained shippers and suppliers in a way that is financially viable for gas network companies.

UNC726 has been raised with the aim of giving effect to those proposals from network companies for shippers, and today we have agreed to grant urgent status, allowing it to progress on an expedited timetable as set out below.

The modification proposal

UNC726 proposes to introduce a scheme which would provide some relief to shippers by allowing them to defer payment for gas transportation invoices issued in July, August, and September 2020. Repayment of any deferred invoices would be required by the end of March 2021, with instalments payable prior to that deadline. Further there would be certain eligibility criteria for shippers, and caps on relief available to them, so that scheme targets support to those shippers unable to access liquidity support by other means. In order to balance relief to shippers with the financial stability of gas network companies, there would also be a cap on the scheme.

UNC Modification Panel View

Given the circumstances we have not on this occasion sought a formal UNC Panel view on the proposals, as allowed for under paragraph 10.1.1(b) of the Modification Rules.⁵

Authority Decision

³ Published 2 June 2020, see: https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_0.pdf

⁴ Facilities include the COVID Corporate Financing Facility (CCFF), Coronavirus Business Interruption Loan Scheme (CBILS) and the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

<https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19>

⁵ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

We have considered the proposers' justification for urgency for the modification proposal. We have assessed the request against the urgency criteria set out in Ofgem's published guidance⁶. In general, we consider that an urgent modification should be linked to an imminent issue⁷ or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. significant impact on the safety and security of the electricity and/or gas systems, or;
- iii. party to be in breach of any relevant legal requirements.

We have also considered this modification in the context of our enabling framework for regulatory flexibility during COVID-19, as set out in open letters previously issued to energy network⁸ and retail energy supply⁹ companies. In those letters, and other COVID-19 engagement with industry as a whole, we have encouraged parties to identify early, and appropriately mitigate, the impacts of COVID-19 to ensure consumers – especially the vulnerable – are protected from immediate harm, security of supply is maintained, and the health and safety of colleagues and consumers is maintained.

We are satisfied that the progression of this modification proposal and the need for an appropriate response to COVID-19 is “a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s)” and have therefore agreed that the modification proposal should follow the urgent timetable as set out below.

| Process | Date |
|---|--------------|
| Ofgem Decision on Urgency | 3 June 2020 |
| Consultation Commences | 4 June 2020 |
| Consultation Close-out for representations | 12 June 2020 |
| Final Modification Report available for Panel | 16 June 2020 |
| Modification Panel recommendation | 18 June 2020 |
| Ofgem Decision expected by | 23 June 2020 |

We have considered the timetable presented by the Proposer. As we have been able to decide on urgency earlier than requested, and through discussions with the Joint Office, an additional day is available for consultation.

⁶ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

⁷ The imminent issue may be date related.

⁸ Published 8 April 2020, see: https://www.ofgem.gov.uk/system/files/docs/2020/04/networks_letter_0.pdf

⁹ Published 8 April 2020, see: https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier_letter.pdf

However as we are considering a range of complex issues and proposals aimed at addressing the impacts of the COVID-19 crisis it should be noted that the timetable with respect to our decision is subject to change.

While we have asked the network companies, through the ENA, to develop schemes to provide relief to shippers and suppliers, it was for the network companies to bring forward proposals which give effect to those principles. For the avoidance of doubt, nothing in our open letter or this decision to grant urgency should be taken as an indication of our view on the merits of this specific proposal or fetter our discretion in respect of it.

Yours sincerely

Jacqui Russell

Head of Metering and Market Operations