



Making a positive difference
for energy consumers

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

Direct Dial: 020 7901 3874

Email: david.o'neill@ofgem.gov.uk

Date: 7 July 2020

Dear Wanda and colleagues

Uniform Network Code Modification proposal UNC730: 'COVID-19 Capacity Retention Process' – urgency application

We¹ have received a request from Gazprom Energy ("the proposer") that Uniform Network Code (UNC) modification proposal UNC730 'COVID-19 Capacity Retention Process'² (hereafter "UNC730") should be given urgent status and follow expedited modification procedures. This letter confirms that we have not agreed to that request, and that the proposal should instead follow the normal modification procedure, including workgroup development.

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.

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>

Against this backdrop, a specially convened session of the UNC Distribution workgroup was held on 14 April 2020 to consider the likely impacts of COVID-19 on the UNC arrangements and potential mitigating actions.³ From those discussions, five modification proposals emerged,⁴ each of which was granted urgent status.

We also granted urgent status to and subsequently directed the implementation of UNC726: 'COVID-19 liquidity relief scheme for shippers', which had been developed by the gas transporters and the Energy Network Association, in response to our open letter dated 2 June 2020.⁵

The modification proposal

Further to comments made in our decision to reject UNC725, UNC730 seeks to provide relief to business consumers impacted by COVID-19. Specifically, it seeks to build upon the revised isolations process introduced under UNC723 such that any site isolated between 1 June and 1 September 2020 would be eligible for a 50% reduction in the normally applicable LDZ Capacity Charges. This charge reduction would last until the isolated status of the site is removed, or until the end of the relevant COVID-19 period (as defined in under UNC722), whichever is the earlier.

Authority Decision

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 guidance.⁶ 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.

³ See: <https://www.gasgovernance.co.uk/dist/140420>

⁴ Those modifications are: 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'; UNC724 'Amendment to Ratchet charges during COVID-19 period'; UNC725: 'Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19'.

⁵ See: <https://www.ofgem.gov.uk/publications-and-updates/managing-impact-covid-19-energy-market-relaxing-network-charge-payment-terms>

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.

As noted above, we accept that 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 therefore agreed that UNC721-726 should follow urgent procedures. We recognise that this issue continues to apply to sites that have been isolated under UNC723, to the extent that they remain liable for 95% of transportation charges throughout the isolated period.

However, our guidance also states that “retrospective application of a modification may negate the need for its development to follow an urgent or otherwise contracted timetable”. Whilst knowledge of the applicable transportation charges and the extent to which they may be avoided would help inform any shipper’s and consumer’s decision on whether to isolate a particular supply point, the charge reduction proposed by UNC730 has not been a consideration to date. We note that if UNC730 is accepted, the 50% reduction would apply to any site which isolated between 1 June and 1 September 2020 irrespective of when that decision may have been made. We therefore do not consider that the effect of the modification is contingent upon the timing of our decision.

We also consider that granting of urgent status to a modification proposal can be detrimental insofar as it reduces relevant parties’ ability to assess and where appropriate further develop the proposal. We therefore do not take the granting of urgent status lightly, and we think that the issues that UNC730 raise would be best served by following the normal established modification procedures.

Given the above, we do not consider that urgent procedures would be appropriate in this instance and therefore reject the application.

Further, whilst like any UNC modification proposal UNC730 will be assessed against the UNC relevant objectives, we also have a duty to ensure that licensees are able to finance their licensable activities. Whilst we do not consider that the implementation of the Network Charge Deferral scheme under UNC726 should, of itself, preclude any further network charge proposals that, it would be appropriate to consider the viability of any further network change proposals taking effect during the period of the scheme. We are currently monitoring the level of applications to the scheme and would expect the value of invoices that are subject to deferral to be an important consideration in our assessment of any further UNC modifications, including UNC730.

For the avoidance of doubt, our decision on urgency should not be treated as any indication of our view on the merits of UNC730, or any of the previous modification proposals that are referenced in this letter.

Yours sincerely

David O'Neill
Head of Gas Systems, Energy Systems Transition