

Representation - Draft Modification Report UNC 0687

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 06 September 2019**

To: enquiries@gasgovernance.co.uk

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

Representative:	George Moran
Organisation:	British Gas
Date of Representation:	06/09/2019
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) None</p> <p>c) Negative</p>

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

We do not support this modification for the following reasons:

1. Price Cap Implications (negative impact on Relevant Objective c)

Currently LRSP costs are allowed for in the domestic retail price caps. However, the existing price cap methodology would not allow the new charges created by MOD 0687 to be recovered by suppliers (since it doesn't cater for a fixed charge). If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply (and could even lead to more SoLR instances).

Therefore, we consider that MOD 0687 would require a change to the price cap methodology and could not be implemented without and until such a change to the price cap methodology were also implemented.

2. Additional Uncertainty (negative impact on Relevant Objective c)

Contrary to the assertion in the draft report there is currently no uncertainty surrounding the current LRSP arrangements and neither is it up to each DNO to decide how to incorporate LRSP costs into their charging methodologies.

Under current arrangements, LRSP costs are included in the GDN allowed revenue through the miscellaneous pass-through term in the GDN licence and flow through to the target revenue described in the charging methodology. LDZ system charges and Customer charges are scaled in the methodology to recover the target revenue. Therefore, there is no uncertainty or discretion in the methodology for how GDNs should recover LRSP costs.

However, the proposed change would introduce uncertainty and ambiguity by allowing GDNs to decide amongst themselves how to split the SoLR costs between credit balances and residual costs (paragraph 11.3 of the legal text) without prescribing any methodology for how this would be done.

3. Cost reflectivity (no impact on Relevant Objective a)

The proposal claims to improve cost reflectivity by aligning the cost recovery mechanism in the UNC with the way Ofgem allocate LRSP costs to GDNs. However, Ofgem has been clear that its approach is to enable broad socialisation of the LRSP and is therefore not based on any concept of cost reflectivity. Therefore MOD 687 does not improve cost reflectivity.

There are undoubtedly many elements of the GDNs' overall cost base which could theoretically be separated out from allowed revenue and allocated to market segments. No justification has been provided why LRSP costs should receive special treatment.

4. Proportionality and Practicality

The proposed change requires potentially significant system changes to be implemented correctly – not just by Xoserve, but also by industry parties. The example included in the draft report, which is representative of the claims made in recent years, shows the new charge would recover 20p-30p for domestic customers in a year and 8p-12p for non-domestic customers in a year. We do not consider the degree of system change required to implement this change correctly is proportionate to the issue. This is an unnecessary and inefficient additional industry cost.

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

Implementation of the proposal would need to allow sufficient time for the necessary system development and implementation, so that invoicing of the new charge was in line with existing industry timescales. The proposal seems to imply that the change should be implemented, and the new charge created, even if the systems are not in place to invoice it – that is clearly inappropriate.

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

Since this new charge is not catered for in the Price Cap, it would lead to unjustified losses for domestic suppliers – potentially leading to further SoLR instances.

We have not assessed potential system costs.

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

No Comment

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

No Comment

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

No Comment