


| UNC Final Modification Report | At what stage is this document in the process? |
|---|--|
| <h1 data-bbox="132 320 1050 427">UNC 0797(Urgent):</h1> <h2 data-bbox="132 450 978 591">Last Resort Supply Payments Volumetric Charges</h2> | <div data-bbox="1209 315 1477 640"> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div> |
| <p>Purpose of Modification:</p> <p>To create a new charge type to pass Last Resort Supply Payments (LRSP) charges from Gas Distribution Networks to Shippers based on the originating market sector using a volumetric unit rate charging methodology.</p> | |
| <p>Next Steps:</p> <p>The Panel recommends implementation.</p> | |
| <p>Impacted Parties:</p> <p>High: Shippers, Gas Distribution Networks, CDSP, consumers</p> <p>Low:</p> <p>None:</p> | |
| <p>Impacted Codes: None</p> | |

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| | | |  07500 964447 |
| Timetable | | | |
| Modification timetable: | | | |
| Modification Proposal sent to Ofgem | 22 December 2021 | | |
| Ofgem decision on Urgency | 23 December 2021 | | |
| Modification Proposal issued for Consultation | 23 December 2021 | | |
| Consultation Close-out for Representations | 04 January 2022 | | |
| Final Modification Report available for Panel | 05 January 2022 | | |
| Modification Panel Recommendation | 12 January 2022 | | |
| Final Modification Report issued to Ofgem | 12 January 2022 | | |

1 Summary

What

This Proposal creates a new charge type to be used to recover LRSPs from Supplier of Last Resorts (SoLR). It is based on a volumetric unit rate to ensure that smaller users of gas pay a smaller proportion of the overall recovery. The allocation to specific sectors where the costs originated from provides a fair apportionment.

Why

The existing recovery is managed through General Transportation Charges across all Users regardless of where the costs originated from and is not transparent. UNC Modification 0687V seeks to apportion costs on a meter point basis. This is contrary to how the majority of transportation charges are recovered from customers, using either a peak daily demand or consumption to determine cost. This modification proposes to align LRSP cost recovery with this principle.

How

New charge types for Domestic and Non-Domestic using existing Shipper maintained Market Sector Codes will allocate value to each sector. This will then be allocated using a volumetric basis so that customers are charged in line with their consumption, as opposed to a flat rate.

2 Governance

Justification for Urgency

In Autumn 2021, wholesale gas prices increased significantly from their January 2021 level which has resulted in a high number of small to medium Supplier organisations to cease trading with their portfolios being transferred through the existing Supplier of Last Resort (SoLR) process.

| | Old supplier | Domestic | Non-Domestic |
|------------|----------------------|----------|--------------|
| 25/11/2021 | Entice Energy | 5,400 | |
| 25/11/2021 | Orbit Energy | 65,000 | |
| 16/11/2021 | Neon Reef | 30,000 | |
| 16/11/2021 | Social Energy Supply | 5,500 | |
| 03/11/2021 | CNG Energy | | 41,000 |
| 02/11/2021 | Omni Energy | 6,000 | |
| 02/11/2021 | MA Energy | | 300 |
| 02/11/2021 | Zebra Power | 14,800 | |
| 02/11/2021 | Ampoweruk | 600 | 2,000 |

| | | | |
|-------------------|---------------------------|---------|-------|
| 01/11/2021 | Bluegreen Energy Services | 5,900 | |
| 18/10/2021 | GOTO Energy | 22,000 | |
| 14/10/2021 | Daligas | 9,000 | |
| 13/10/2021 | Pure Planet | 235,000 | |
| 13/10/2021 | Colorado Energy | 15,000 | |
| 29/09/2021 | ENSTROGA | 6,000 | |
| 29/09/2021 | Igloo Energy | 179,000 | |
| 29/09/2021 | Symbio Energy | 48,000 | |
| 22/09/2021 | Avro Energy | 580,000 | |
| 22/09/2021 | Green Supplier | 255,000 | |
| 14/09/2021 | People's Energy | 350,000 | 1,000 |
| 14/09/2021 | Utility Point | 220,000 | |
| 07/09/2021 | PFP Energy | 82,000 | 5,600 |
| 07/09/2021 | MoneyPlus Energy | 9,000 | |
| 09/08/2021 | Hub Energy | 6,000 | 9,000 |
| 27/01/2021 | Green Network Energy | 360,000 | |
| 27/01/2021 | Simplicity Energy | 50,000 | |

Ongoing increased wholesale prices combined with the Ofgem domestic price cap have put considerable financial strain onto the SoLR organisations, who in turn are expected to apply for Last Resort Supplier Payments (LRSP) to help fund the cost of taking on these supply points.

Ofgem has issued an Open Letter on 29 October 2021¹ setting out a potential process to speed up the ability of SoLRs to make these claims, concluding on 1 December 2021² that they would make necessary arrangements with both Electricity Distribution Network Operators (DNOs) and Gas Distribution Networks (GDNs) to facilitate faster payment to the costs incurred by those suppliers acting as SoLRs, termed Last Resort Supplier Payment claims (LRSP). The LRSP process is designed to keep DNOs and GDNs neutral and as a result significant indicative price increases have been published by GDNs for the 2022/23 year. Final prices for this will be published on 31 January 2022, and therefore any changes to the current non-targeted arrangements need to be approved in time for this price setting to be completed and published. This imminent time related event currently

¹ <https://www.ofgem.gov.uk/publications/consultation-last-resort-supply-payment-claim-edf>

² <https://www.ofgem.gov.uk/publications/decision-letter-supplier-last-resort-levy-claims>

proposes to pass a material value through the LRSP (circa £900m for gas³ process in 2022/23, thereby meeting the requirements for being treated as Urgent⁴.

Requested Next Steps

This Modification should:

- be treated as Urgent and should proceed as such under a timetable agreed with the Authority.

Due to the time constraints, the Proposer believe that this Proposal should be issued directly for Consultation.

3 Why Change?

In Autumn 2021, wholesale gas prices increased significantly, from their January 2021 level which has resulted in a high number of small to medium Supplier organisations (see section 2) to cease trading with their portfolios being transferred through the existing Supplier of Last Resort (SoLR) process⁵. Ongoing increased wholesale prices combined with the Ofgem domestic price cap have put considerable financial strain onto the SoLR organisations, who in turn are expected to apply for Last Resort Supplier Payments (LRSP) to help fund the cost of taking on these supply points.

Current arrangements which are not specifically set out in the GDN's Charging Methodologies⁶ would spread all costs to gas meter points as a direct proportion of their current allocation of Gas Transporter charges. It is widely acknowledged that the vast majority of the LRSP costs come from the domestic market, and therefore it is inappropriate for non-domestic meter points to bear a disproportionate amount of the costs. In April 2019, Total Gas & Power Limited, now trading as TotalEnergies Gas & Power Limited, raised UNC0687 which sought to target costs to the market where the costs were incurred, however this was not approved and has remained in flight with no Authority decision. This Proposal also aims to target costs to appropriate markets, but rather than a flat standing charge as in UNC0687, it is proposed that a volumetric process is used to determine the unit rates.

The use of a volumetric driver for unit rate calculations will help further apportion costs in relation to usage. In all markets market this would mean that properties with a lower usage, such as small flats or businesses, would receive a smaller proportion of the overall charge than a detached multi-bedroom house or process load, which uses significantly more gas. While we acknowledge that there may be some properties where usage and relative size or value are not in relation, such as holiday homes, this would help drive down the impacts particularly in fuel poor households.

4 Code Specific Matters

Reference Documents

Gas Distribution Network Operator Charging Methodologies

<https://www.gasgovernance.co.uk/index.php/DNcharges>

³ <https://www.gasgovernance.co.uk/indic/2022>

⁴ <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2018-11/ApprovedUrgentProposalsGuidelines.pdf>

⁵ <https://www.ofgem.gov.uk/publications/supplier-last-resort-revised-guidance-2016>

⁶ <https://www.gasgovernance.co.uk/DNcharges>

Ofgem SoLR guidance <https://www.ofgem.gov.uk/publications-and-updates/supplier-last-resort-revised-guidance-2016>

Knowledge/Skills

As this process is reliant on the Ofgem LRSP determination process, it will be of significant benefit for Ofgem to provide some understanding of the process they undertake when approving LRSP payments.

5 Solution

Outline

A new specific charge type (SoLR Customer Charge) will be created and added to the current Distribution Network Transportation Charging Methodology. Cost recovery will be targeted to market sector to align to the sector where the costs arose from.

A volumetric approach will then ensure that within each market sector, smaller users of gas pay a lesser charge than larger users.

It is proposed that the initial market sector allocation is managed either through direction from the Authority (where provided) or using the Market Sector Code contained within the UK Link.

Charges will be issued using a new charge type on either an ad-hoc invoice or added to one of the existing core invoices, which Xoserve have indicated that they will be able to deliver.

Business Rules

1. New charging item SoLR Customer Charge to be developed and added to the Gas Transportation Charging Statements, with different Charge Codes for domestic and non-domestic meter points.
2. When directed by Ofgem to recover the costs of an LRSP payment, each Gas Transporter will recover all of the LRSP payment costs via the SoLR Customer Charge.
3. Where no LRSP payments are required for a charging year, the SoLR Customer Charge will be zero and no invoices issued.
4. The Domestic or Non-domestic sector value will be determined either by direction from the Authority, or where that is not provided by the Authority, on meter point count basis (at the time of the SoLR appointment) using the Market Sector Code held within the UK Link for each Network.

Domestic value = Specified Amount * (Domestic MPRN count / Total MPRN count)

Non-domestic value = Specified Amount * (Non-domestic MPRN count / Total MPRN count)

Will be calculated in pence.

5. Each market sector will then have the total sector charge converted into a unit rate presented as pence per peak day kWh

Domestic unit rate = Domestic value / Domestic Peak Day SOQ used for tariff setting

Non-domestic rate = Non domestic value / Non domestic Peak Day SOQ used for tariff setting

Prices will be set using the same SOQ as the existing charging methodology.

6. Invoicing will be issued by the CDSP in line with UNC TPD Section S in the format determined through the DSC Change process

7. In the event of multiple LRSP claims in a single regulatory year, the SoLR Customer Charge will be calculated for each claim and aggregated into a single unit rate per charge code for invoicing purposes.
8. The methodology for calculating the unit rates will be included in UNC TPD Section Y Part B.
9. This methodology and new charge code will apply for all claims that make up the unit rate to be applied from 1 April 2022 onwards. For the avoidance of doubt this will include valid claims up to 31 December 2021 in accordance with the Ofgem letter of 1 December.⁷

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact on current SCR.

Consumer Impacts

Transporter costs are a proportion of charges that are passed to all Consumers, therefore as a result it is expected that increased transportation costs will have an equivalent impact on consumer prices. This Proposal will ensure that costs are targeted to the market where they were incurred.

What is the current consumer experience and what would the new consumer experience be?

Current LRSP charges are spread across all customers through Transportation Charges and does not differentiate between the market where the costs were originally incurred. This will re-balance charges to the source market and ensure that within each market the charges are proportionate to gas usage.

Impact of the change on Consumer Benefit Areas:

| Area | Identified impact |
|---|--|
| Improved safety and reliability | None |
| <p>Lower bills than would otherwise be the case</p> <p>This will rebalance costs to originating market which will have distributional impacts. As a result, some customers will incur higher charges and others will incur lower charges.</p> | <p>Positive (Small Consuming Customers)</p> <p>Negative (Larger Consuming Customers)</p> |
| Reduced environmental damage | None |
| Improved quality of service | None |

⁷ <https://www.ofgem.gov.uk/publications/decision-letter-supplier-last-resort-levy-claims>

| | |
|---|----------|
| <p>Benefits for society as a whole</p> <p>Targeting costs to source markets creates fairer charges for customers. This will result in higher costs for some markets and lower for others.</p> | Positive |
|---|----------|

Cross-Code Impacts

None identified

EU Code Impacts

None identified

Central Systems Impacts

New charge codes and invoicing arrangements will need to be implemented by Xoserve. Xoserve have confirmed through discussions that they can deliver this modification in time from 1 April 2022.

Given the Urgent nature of this proposal it is expected an interim and enduring solution will both need to be developed. Initial pre-work for UNC0687 may be able to form a basis for this. Current charging does not utilise the Market Sector Code so new rules for creating this form of charging will be necessary.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Charging Methodology Objectives:

| Relevant Objective | Identified impact |
|---|-------------------|
| a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business; | Positive |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers; | None |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | None |
| c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and | Positive |
| d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets). | None |
| e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

This Modification will require transporters to amend their Charging Methodologies to incorporate the new requirement in the recovery of LRSP costs and ensure that they are targeted at the originating market. This will make the costs more reflective of source market and further competition by applying these costs in a fair and transparent manner.

8 Implementation

As Urgent procedures are proposed, Implementation would be required with sufficient time for Gas Transporters to publish their prices on 31 January 2022, with the charges coming into effect from 1 April 2022.

9 Legal Text

Text Commentary

Legal Text Commentary is published alongside the Modification: <https://www.gasgovernance.co.uk/0797>.

Text

Legal Text is published alongside the Modification: <https://www.gasgovernance.co.uk/0797>.

10 Consultation

Ofgem invited representations from interested parties on 23 December 2021. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report and are appended in Section 13.

Of the 25 representations received 13 supported implementation, 2 offered qualified support, 2 provided comments and 8 were not in support.

(4 representations arrived between 5pm 04 January 2022 and 5pm 05 January 2022 and these have been included in the table below.)

Representations were received from the following parties:

| Organisation | Response | Relevant Charging Methodology Objectives |
|-----------------|-------------------|--|
| British Gas | Oppose | a) none c) negative |
| Cadent | Qualified Support | a) positive c) positive |
| Citizens Advice | Comments | a) neutral c) neutral |
| EDF | Oppose | a) none c) negative |

| | | |
|---|-------------------|--------------------------------------|
| Energy Intensive Users Council (EIUG) | Support | a) not specified c) not specified |
| ENGIE | Support | a) positive c) positive |
| EON | Oppose | a) none c) none |
| Frank Rudd & Sons Woodend Nursery | Oppose | a) negative c) negative |
| Gazprom Energy | Support | a) positive c) positive |
| ICoSS | Support | a) positive c) positive |
| Major Energy Users Council | Support | a) positive c) positive |
| Mineral Products Association | Support | a) not specified c) not specified |
| Northern Gas Networks | Support | a) positive c) positive |
| Octopus Energy | Oppose | a) none c) none |
| Opus Energy | Support | a) positive c) positive |
| R & L Holt Ltd & Springhill Nurseries Ltd | Oppose | a) negative c) negative |
| ScottishPower | Qualified Support | a) none c) positive |
| SGN | Support | a) positive c) positive |
| Springhill Farms (Persore) Ltd | Oppose | a) negative c) negative |
| SSE Energy Supply Limited | Support | a) positive c) positive |
| TotalEnergies Gas & Power | Support | a) positive c) positive |

| | | |
|------------------------|----------|--------------------------------------|
| Utilita | Oppose | a) none c) none |
| Wales & West Utilities | Support | a) positive c) positive |
| West Mercia Energy | Support | a) positive c) positive |
| Xoserve | Comments | a) not specified c) not specified |

Please note that late submitted Representations will not be included or referred to in this Final Modification Report. However, all Representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0797 (Urgent) would create a new charge type to pass Last Resort Supply Payments (LRSP) charges from Gas Distribution Networks to Shippers based on the originating market sector using a volumetric unit rate charging methodology.

Panel Members noted that four were received between the formal close-out time of 5pm 04 January 2022 and 5pm 05 January 2022. As the FMR was still undergoing editing at this point in time, it was noted that these representations were included in the table, in Section 10. Panel Members considered all the representations made noting that, of the total 26 representations received 13 supported implementation, 2 offered qualified support, 2 provided comments and 9 were not in support (1 of the opposing reps was received on 07 January 2022 from Utilities Services MediaCityUK Ltd. This has been published, and included in the table within Section 10).

Alternative Modifications and FMRs timings/progress

- The Ofgem letter granting Urgency for Modification 0797 (23 December 2021) states, “*We consider this proposal to be an alternative to UNC0687, and hence we would encourage the Final Modification Report (FMR) on this proposal to come to Ofgem for decision at the same time as the FMR for UNC0687*”.⁸
- As directed by Ofgem, Modifications 0797 (Urgent) and 0687V are Alternatives and as a result this limits what the Modification Panel is able to decide in relation to the progress of Modification 0687V.
- To date, a combined report has not been published for Modification 0797 (Urgent) and 0687V as this was not requested by Ofgem.
- Panel Members noted that British Gas had queried whether Modification 0795S is also an Alternative Modification to 0797 (Urgent) and 0687V (as it appears from the Legal Text to be mutually exclusive). Panel Members briefly discussed this and concluded that progress on Modification 0795S would be

⁸ Link to all documents for Modification 0797: <https://www.gasgovernance.co.uk/0797>

dependent on the outcome (Ofgem Final Decision) of Modification 0687V and Modification 0797 (Urgent). Panel Members did not consider whether Modification 0795S was an Alternative.

Citizen's Advice provided the following FMR text for Modification 0797 (Urgent)

The consultation has given rise to a number of issues which, in the absence of being able to return the Modification to Workgroup, gives Citizen's Advice concern about the risk of unintended consequences. In particular:

- The materiality of whether the volumetric methodology (based on peak day demand) proposed is the fairest solution in the recovery of £877million, and the lack of optioneering possible under this modification's late introduction and urgent process
- The risk of windfall gains as presented by some consultation responses as a result of the way that Modifications 0687, 0687V and 0797 (Urgent) have progressed
- The impact of increasing costs in current market conditions at such short notice to shippers and suppliers
- Issues with the alignment of the solution at the centre of Modification 0797 (Urgent) (and Modification 0687V) with other cost recovery policy e.g. costs of the Special Administration Scheme - please see [paragraphs 2.1.3, 2.2.2 and 2.3.4](#) indicating government policy that:
 - Costs should be recovered by all suppliers and shippers in proportion to market share
 - Charges with a locational element should be avoided
 - Increased charges should be recovered over an appropriate timeframe, with adequate notice and reasonable timeframe for implementation.

Some Panel Members, agreed with the views of Citizen's Advice and noted that prudent Shippers would be unnecessarily impacted by this Modification.

Some Panel Members noted that in the non-domestic sector, with customers on fixed contracts, the industry cannot absorb these short-term volatile movements in cost.

Panel Members discussed the use of peak day demand and concluded that this particular approach, which is a volumetric calculation, may or may not be the most optimum mechanism but the fact remains that there is no further time for consideration. However, any delay must consider the impact of the cross subsidy arising from not allocating to the relevant market sector from 01 April 2022. Further optimisation is not open to discussion at this stage.

Some Panel Members noted that both option Modification 0687V and Modification 0797 (Urgent) do not use the same mechanism as in the electricity sector.

Some Panel Members noted that in gas there are no charging bands, but at a high level the Modifications mimic the principle that costs should fall on the relevant market sector.

Some Panel Members noted that the volumetric mechanism would apply to all market sectors and would therefore apply equally to domestic and non-domestic.

Some Panel Members believed that the lack of analysis makes it difficult to form a view as to which Modification is more preferable. Whilst other Panel Members noted the obvious benefit of a volumetric approach being fairer than a flat charge e.g. why should a one-bedroom flat incur the same charge as a 5 bedrooomed detached property?

A Panel Member believed that Modification 0797 (Urgent) could not be implemented in its current form because there is a genuine price cap issue for Modification 0797 (Urgent). They did not believe that the price cap can cater for a 'new' SoLR capacity charge as the distribution charges are itemised in the model, whereas Ofgem

are at least consulting on adding in a fixed charge element that could cater for the requirements of Modification 0687V. This is a licence issue. A Panel Member believed the price cap must be amended to allow Modification 0797 (Urgent) to be implemented.

Some Panel Members believe that the retail price cap interactions, are not a barrier to implementation of Modification 0797 (Urgent) because the price cap SLC has no explicit link to the prices set under the UNC. The price cap methodology can be amended to take into account Transportation charges in subsequent price cap periods and can be amended – which has been done historically.

Some Panel Members believed that despite this, the Modification Panel was obliged to highlight that the Modification would cause a significant shift in LRSP costs to the Domestic sector, and that the price cap was the only mechanism that allowed suppliers to avoid material cash-flow exposure.

Panel Members discussed whether the content of this Modification could be returned to Workgroup for discussion, after a decision has been taken on implementation, in line with the Modification Rules. Panel Members went on to discuss the Licence issues which may impact the DNs.

Modification timing and timetable

The Proposer confirmed that although the timescales were not ideal, they had been approached by the Authority to raise this Modification. Some Panel Members noted that although points had been made regarding the reduced Consultation time over the festive period, a higher-than-average number of representations were received for this Modification, indicating that engagement had been achieved as a result of the efforts of the Joint Office.

The Ofgem representative, (Andrew Ryan) noted that the industry faces an unprecedented level of SOLR claims, with current figures showing £1.8bn cost to be recovered in transportation charges. He stated that Ofgem is considering how best these should be recovered, noting that without intervention the status quo is that these costs would fall on both market sectors. Ofgem recognised this, by deciding to grant Urgency and is working to determine a decision as to which Modification is best between 0687V and 0797 (Urgent). Ofgem will take the reservations expressed by Panel Members and consultation respondents into account. The Ofgem representative recommended that parties could send in any further concerns, to the Authority directly.

General points

- The Modification proceeded, with an exceptionally fast timetable.
- The Modification timing, especially the timing of the Consultation was poor, being coincident with Christmas and New Year period.
- For many, the timeline for Consultation was inadequate.
- Having the Modification proceed under an Urgent timetable, alongside having no Workgroups, did not allow assessment of whether the solution would deliver the intention or ascertain full impacts (and any unintended consequences).
- Despite the timing issues, there was a large number of responses and many cited issues with a lack of analysis.
- Many responses were from parties who, it was generally agreed, had never responded to a UNC consultation before (e.g. Frank Rudd & Sons Woodend Nursery, R & L Holt Ltd & Springhill Nurseries Ltd, Springhill Farms (Persore) Ltd, West Mercia Energy), these were clearly smaller organisations.
- Many responses from “new” respondents had very little detail in their representation, whether supporting or opposing. Some of these were not immediately clear in their arguments as to whether they were supporting or opposing. It was clear, that such respondents, were all concerned at the high level of their

gas bills and wanted to register their concerns, that this Modification, may have an undesirable effect on their gas bills.

- Some Panel Members, wished to note that the cost of living crisis, means that some domestic consumers (who will not know anything about this Modification) will be considerably negatively impacted by this Modification.
- Some Panel Members, noted that smaller non-domestic consumers will benefit from this Modification, since they will no longer have to cross subsidise the domestic sector at a time when they are recovering from the current Covid crisis.

The Ofgem representative, stated that Ofgem will shortly be clarifying to the wider industry that all SOLR costs will be allocated to the domestic sector in 2022/23.

Specific points in opposition

- Some Panel Members, believed inadequate time was allowed for scrutiny of the Modification.
- Some Panel Members, noted that there was no analysis, of the interaction with the Ofgem price cap methodology
 - Some Panel Members noted that there is no bar on DNs changing basis for charging, but commercially, the detriment which the Modification seeks to correct would potentially be transferred to another sector, so therefore Ofgem must consider this interaction to prevent LRSP costs causing more domestic suppliers to fail.
- A Panel Member believed, that the change cannot be made until SoLR customer charge type is incorporated into the price cap methodology (note other Panel Members believed this was “should not” instead of “cannot”).
- Some Panel Members, believed that there is a lack of analysis to demonstrate whether the Modification will work (will a meter-point based split achieve desired sectoral allocation if the Authority does not direct the split?)
 - When discussing this, the Ofgem representative confirmed that Ofgem will direct the split. This is captured below in discussion regarding the Legal Text.
 - The expectation is that the meter point-based split is a backstop provision only, which would not normally be called upon.
- Some Panel Members believed that this Modification places undue burden on specific customer types and they have not been able to determine whether or not the Modification will cause other inequities (noting these would ordinarily have been part of Workgroup discussions).
- Some Panel Members believed that this Modification introduces uncertainty and possibly additional unforeseen risk to some domestic suppliers.
- Some Panel Members believed that this Modification unfairly penalises “prudent suppliers” who will have taken indicative distribution charges and current LRSP regime into account.
- Some Panel Members were uncertain as to the CDSP’s ability to deliver the solution.
 - The CDSP representative to Panel (E Rogers) indicated that an interim solution (XRN 4992) is being progressed at risk already.
 - Panel Members thanked the CDSP (Xoserve) for their consultation response to Modification 0797 (Urgent)

- The CDSP representative stated Modification 0797 (Urgent) can only be implemented if the Last Resort Charge Calculation is based upon a single monthly Snapshot of each User's portfolio.
- The CDSP representative stated that costs given by CDSP (XRN 4992 – Modification 0687) are based on an interim solution only.
- Some Panel Members noted there is an interaction with Ofgem's 3rd Party SoLR financing review issued 30 December 2021.
- Some Panel Members questioned whether peak day demand was the right basis for charging.
- Some Panel Members noted that separating costs according to market sector is usually done to apply commercial incentives which this Modification does not do.
- Some Panel Members asserted that failed suppliers are a byproduct of current market conditions which this Modification does not address.

Specific points in support

- Some Panel Members believed that this Modification would reduce or remove cross-subsidisation of SoLR events from other market sectors (e.g. between domestic and non-domestic).
- Some Panel Members believed this Modification would better allow for cost recovery via Ofgem price cap allowances going forwards than the original Modification 0687 or 0687V.

Specific points - Qualified Support

Panel Members discussed those Consultation Responses which gave time bound support only for the Modification where:

- There is no delivery risk for GDNs final price notifications (DN workload implications, risk of error).
- The CDSP can definitely deliver the solution in time.
- Ofgem fully reflect the costs in the price cap applicable from April 2022.

Some Panel Members agreed with these points above relating to time bound support.

Implementation queries

- Some Panel Members noted that some DN Consultation Responses required a decision as soon as possible.
- Panel Members noted the connection with Modification 0795S which will be considered at the 20 January 2022 UNC Modification Panel meeting and concluded that if no decision has been made by the Authority on Modifications 0687V and 0797 (Urgent), Panel would need to defer consideration of 0795S until after any Ofgem decision on Modifications 0687V and 0797 (Urgent).
- The Ofgem representative to Panel indicated the Authority is aiming for publication of its Decision on 20 January 2022.
- Some Panel Members understood that both an interim and enduring solution will eventually be required.
- Panel Members noted that several Consultation responses expressed a concern that DNs must complete charging statement in a consistent manner.

Ofgem licensing comments

- Some Panel Members believed that the Legal Text for Modification 0797 (Urgent) currently requires DNs to set charges in breach of licence. However, there is a live Ofgem consultation regarding SSC A48.

- Some Panel Member noted a Consultation Representation that said licensing by Ofgem should have ensured that a greater level of Supplier security against exposure to market volatility, was in place when supplying Domestic Consumers.

Legal Text clarity requests

Panel Members noted a variety of Legal Text queries from several Consultation Respondents and requested that the Joint Office send a list of these to Ofgem.

NGN stated that as Legal Text Provider, they have considered the challenges to the Legal Text from several Consultation Respondents and consider that the Legal Text is fit for purpose. Any further clarifications, can be made through additional new Modifications, if required.

Consideration of the Relevant Charging Objectives

Panel Members considered Relevant Charging Objective a) *Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business.*

- Some Panel Members agreed that implementation would have a **positive** impact because...
 - Modification 0797 (Urgent) would reduce or remove cross-subsidisation of SoLR events from other market sectors (e.g. between domestic and non-domestic).
 - Costs would be more appropriately targeted and
 - System changes (XRN 4992) are being progressed at risk and have been visible for some time.
- Some Panel Members agreed that implementation would have **no** impact because...
 - It was impossible to assess compliance with the charging methodology in the time given and
 - There was no evidence of any impact assessment.
- Some Panel Members agreed that implementation would have a **negative** impact because...
 - It would introduce uncertainty and possibly additional unforeseen risk to some domestic suppliers and customers.
 - Implementation of Modification 0797 (Urgent) poses a higher risk relating to system changes done at shorter timescales than usual.
 - Concern from the CDSP has been highlighted in communications relating to XRN 4992:
*"There is a significant amount of change planned between January and April 2022. This brings inherent risk into CDSP's delivery and support of critical production services and processes."*⁹

Panel Members considered Relevant Charging Objective c) *That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.*

⁹ Taken from Post-meeting brief DSC Change Management Committee which took place on 08 December 2021) available here: <https://www.gasgovernance.co.uk/dsc-change/081221>

- Some Panel Members agreed that implementation would have a **positive** impact because...
 - Modification 0797 (Urgent) would reduce or remove cross-subsidisation of SoLR events from other market sectors (e.g. between domestic and non-domestic) and
 - Costs would be more appropriately targeted.
- Some Panel Members agreed that implementation would have a **negative** impact because Modification 0797 (Urgent) would
 - Create a windfall for non-domestic suppliers.
 - Place an undue burden on specific customer types.
 - Unfairly penalise “prudent suppliers” who will have taken indicative distribution charges and the current LRSP regime into account.
 - Not be implementable under the current price cap because it does not currently allow for fixed charge elements and Modification 0797 (Urgent) does not state it is contingent on a change to the price cap.
 - Pose an implementation risk given that the scale of the amount to be received is now so significantly higher than that envisaged under the original Modification 0687V and under Modification 0687V and
 - Cause distributional impacts as described in the British Gas Consultation response.

Preference for either Modification 0687V or Modification 0797 (Urgent)

Panel Members wished to note that the preference vote assumed that both Modifications could be fully implemented by 01 April 2022.

Those Panel Members who expressed no preference, between Modification 0687V and Modification 0797 (Urgent) explained that this was because there had been no overwhelming evidence for why one better facilitated the Relevant Objectives than the other.

Those Panel Members who expressed a preference for Modification 0797 (Urgent) over Modification 0687V explained that this was because Modification 0797 (Urgent) appeared to be more cost reflective, therefore better facilitating Relevant Charging Objective a).

Determinations

Panel Members voted with 11 votes in favour (out of a possible 14) and agreed by majority to recommend implementation of Modification 0797 (Urgent).

Panel Members considered, should one of the Modifications be implemented, the one which better facilitated the Relevant Objectives was Modification 0797 (Urgent) rather than Modification 0687V.

Modification 0797 (Urgent) received 3 preference votes in favour (out of a possible 14),

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0797 (Urgent) should be implemented.

13 Appended Representations

Representation – British Gas

Representation – Cadent

Representation – Citizens Advice

Representation – EDF

Representation – Energy Intensive Users Council (EIUG)

Representation – ENGIE

Representation – EON

Representation – Frank Rudd & Sons Woodend Nursery

Representation – Gazprom Energy

Representation – ICoSS

Representation – Major Energy Users Council

Representation – Mineral Products Association

Representation – Northern Gas Networks

Representation – Octopus Energy

Representation – Opus Energy

Representation – R & L Holt Ltd & Springhill Nurseries Ltd

Representation – ScottishPower

Representation – SGN

Representation – Springhill Farms (Persore) Ltd

Representation – SSE Energy Supply Limited

Representation – TotalEnergies Gas & Power

Representation – Utilities Services MediaCityUK Ltd (USMC)

Representation – Utilita

Representation – Wales & West Utilities

Representation – West Mercia Energy

Representation – Xoserve

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

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: | 04 Jan 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) Negative |

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

1. Distributional Impacts (negative impact on Relevant Objective c)

Prior to the reprioritisation of 0687, and the subsequent proposal of this Urgent Modification 0797, prudent suppliers will have made pricing calculations on the basis of the current LRSP regime and indicative distribution charges. The late reprioritisation of 0687, introduction of 0687V and 0797 have led to significant uncertainty for suppliers on future costs. Implementation of this Modification will result in negative impacts for domestic suppliers through further cost increases and a windfall for non-domestic suppliers, who would have priced in the originally anticipated cost levels for their customers. Given current market conditions, this may present an additional unforeseen risk to some domestic suppliers.

Furthermore, due to the lack of analysis it is not clear whether the methodology will serve the policy intention of allocating cost burden to the sector from which it resulted. While this Modification seeks to address concerns of unfair cost recovery in 0687V caused by the market wide domestic/non-domestic meter point split and use of a fixed charge, there is no evidence to suggest that the proposed solution will not lead to other inequities.

2. Implementation Risk (negative impact on Relevant Objective c)

0797 has not been subject to sufficient scrutiny and analysis by stakeholders due to its Urgent status and the desire for expedited implementation of a change of some kind to serve Ofgem's policy intentions. This presents a high risk that neither the methodology proposed nor the systems change solution will be fit for purpose, with potential negative

impacts across industry, and for both domestic and non-domestic consumers. We note only oral indications from discussion with Xoserve have been provided that a systems solution can be delivered for 1 Apr 2022 implementation. No information has been provided of what that change would constitute and therefore what its implications for market participants might be. Xoserve has also stated in writing recently that: *“there is a significant amount of change planned between January and April 2022. This brings inherent risk into our delivery and support of critical production services and processes”*.

The allocation of a cost burden of c.£900m should be fully understood and demonstrated prior to implementation. The methodology in 0797 has not been reviewed and tested by a Workgroup and the application of the method has not been illustrated or assessed. Given current market circumstances, it is crucial that further analysis such as production of revised indicative tariffs using the proposed methodology and the same c. £900m assumption used in the original indicative tariffs is undertaken to indicate to parties the impact of the change.

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

The current default tariff Price Cap model itemises three charge elements: system capacity, system commodity and customer capacity. The new SoLR customer charge would need to be incorporated in the model, for example by adding it to one of the existing capacity tariffs. While this amendment sounds simple, we are concerned that this cannot be done without a formal change to the Price Cap methodology. It certainly cannot be assumed that a new charge would automatically be included in the Price Cap. 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).

The Modification Report omits comment and analysis of the proposal’s interaction with the Price Cap methodology. No review has been carried out of the requirement for necessary changes to the Price Cap to incorporate the SoLR customer charge type. 0797 cannot be implemented without and until such a change to the Price Cap methodology is made.

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

We prefer a lead time of 12 months. Lead times of 12 months or longer are customarily applied for change resulting in significant cost reallocation between sectors (e.g. CMP308) to allow industry parties to adjust their pricing and commercial practices, and provide adequate signals to customers.

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

It is not possible to assess costs with the limited information provided on implementation.

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

No.

11.2: The alternative to Authority allocation is a sectoral split by meter point count per network at the time of the last resort supply direction to the Relevant Supplier ("Relevant Date"). The Relevant Date is used to take the snapshot meter point count to split domestic and non-domestic cost allocations in the absence of an Authority notification of amounts. Firstly, this adds unnecessary complexity as suppliers will have been appointed at different points in time and might be a different time point to that used for the SOQ element of the charge calculation. Secondly, no analysis or justification has been provided as to why a meter point-based split would achieve the desired sectoral allocation of the SoLR cost burden (in the absence of Authority direction).

11.3: The Legal Text provides for the Authority to make an allocation of cost between sectors, but this must be at the Authority's discretion.

11.4: No formula is provided for the calculation of SoLR Customer Charges and it is not clear in the Legal Text how it will be derived. The charge is described as expressed in pence, whereas it should be expressed in pence per peak day kWh.

We note that UNC 0687V, 0795 and 0797 propose Legal Text amendments to the same sections of Code and addition of similarly numbered clauses. These interactions lead to process concerns should one or more Modification be approved.

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.*

Worked examples should be included in the MR and these should contain data representative of the scale of LRSPs at the current time.

The assessment of consumer impact is completely inadequate, as it contains no numerical analysis of distributional impacts or justification for the statement of benefit/disbenefits. Charges will be calculated using peak day demand rather than annual consumption, therefore the statements around distributional effects to small or large consuming customers can be seen as unclear or even misleading, and analysis should be conducted to ensure there are no unintended consequences of this approach (e.g. undue burden on specific customer types).

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

No further information provided.

Cadent Gas Limited
Brick Kiln Street, Hinckley
Leicestershire LE10 0NA
cadentgas.com

Bob Fletcher
Joint Office of Gas Transporters
Radcliffe House,
Blenheim Court,
Warwick Road,
Solihull
B91 2AA

Andy Clasper
Andy.clasper@cadentgas.com
Direct tel +44 (0)7884 113385

04th January 2022

Your Reference: UNC Modification Proposal 0797 Urgent

0797 (Urgent) - Last Resort Supply Payments Volumetric Charges

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal which Cadent would like to support.

Do you support or oppose implementation?

Qualified Support

Relevant Objective:

a) Positive

c) Positive

Reason for support/opposition:

Qualified support on the basis approval of this modification does not create a delivery risk for either Gas Distribution Networks final price notifications or the CDSP's ability to deliver the solution.

Implementation

This modification needs to be implemented as soon as reasonably practicable to allow the changes to take effect in April 2022. Sufficient time must be given for the CDSP and GDNs to carry out any changes, assurance and governance work for new charge types to be included in our price notification on 31 January 2022.

Impacts and Costs

If implemented, the GDNs would need to amend their internal calculations/pricing models to align costs/price to the respective market sector.

Legal Text

No further comments

Are there any errors or omissions in this Modification Report that you think should be taken into account?

We have not identified any errors or omissions.

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

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 07884 113385 (andy.clasper@cadentgas.com) should you require any further information.

Yours sincerely,

Andy Clasper

Representation - Modification UNC 0797 (Urgent) Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------------|
| Representative: | Sam Hughes |
| Organisation: | Citizens Advice |
| Date of Representation: | 4/1/22 |
| Support or oppose implementation? | Comments |
| Relevant Charging Methodology Objective: | a) Neutral c) Neutral |

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

Overall this modification would increase the costs to domestic consumers and decrease the costs to non-domestic consumers when recovering Last Resort Supply Payments compared to the baseline arrangements which are clarified in UNC0795S.

However, unlike in UNC0687 the charges are applied on a volumetric basis and not applied at a flat rate to domestic and non-domestic customers.

Evidence suggests that, generally, households in fuel poverty and with the lowest incomes are most likely to under-consume and least likely to over-consume energy.

This suggests that in theory volumetric charging approaches may deliver a fairer solution compared to flat rate charges as proposed in UNC0687V.

However, we are not convinced that introducing a method of allocating Last Resort Supply Payments at late notice is in the interests of consumers generally. Placing additional costs on domestic customers during a cost of living crisis should be avoided. As this is simply a cost recovery charge, and so not designed to send a behavioural signal, the economic rationale for allocating to domestic customers requires further consideration.

We are also concerned that no quantifiable evidence has been provided for the distributional impacts of applying volumetric charges based on peak day demand rather than any other demand metric which could be used to derive charges. A workgroup could have considered these options and in its absence there is a risk of unintended consequences in the recovery of approximately £900million.

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

We are concerned that the timeline of this modification presents a solution at late notice to industry, in particular, the impact it has on GDNs' need to calculate pricing models and publish prices on the 31st January. The timeline also prevents in depth workgroup consideration of the solution, alternative options and assessment of the distributional impacts.

Although this modification has been granted urgent status by Ofgem in order to provide for an expedited process, we would question why this modification could not have been proposed earlier than the 22nd December, which would have provided the proposer with more time to provide quantifiable evidence and parties with more time to consider the modification and its implications in detail.

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

Costs to consumers and businesses are unclear as the consumer impact assessment does not provide any quantifiable analysis of the distributional impacts of the modification's method of recovering circa £900million, including the implications of using peak day demand rather than a different methodology.

Further impact assessment is required.

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

We have not considered the legal text.

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.*

N/A

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

N/A

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--|
| Representative: | John Costa |
| Organisation: | EDF |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | <p>a) None – impossible to say if it complies with GDN’s licences/ charging methodology given the insufficient amount of time (1 week over the festive period) to assess such a critical proposal at a critical time where so many critical moving parts could have a material impact on the £877m of SOLR costs that need to be recovered and which GDNs, and thus suppliers, have already taken into account in their April 2021 charges.</p> <p>c) Negative – given the points above and below implementation in April 2022 of such a fundamental change without proper consideration and time to understand/ implement system changes, processes and consumer tariffs is likely to have unintended consequences and cause pricing volatility which will be detrimental to competition between gas shippers/ Suppliers and therefore consumers.</p> |

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

EDF strongly opposes this modification because of the points below but fundamentally because there has been no time whatsoever afforded to Shippers and Suppliers to understand the impact of such a critical change at such a critical point in time for consumers and the energy industry given the unprecedented increases in gas prices and consequent record number of supplier failures. We, along with other prudent Suppliers have already fixed charges for April 2022 and therefore implementation on this date this will create further financial risk for suppliers and consumers.

These arguments (below) apply also to modification UNC687 which has been outstanding now for over 2 years since it was sent to Ofgem and has only been rapidly reprioritised with a new consultation on a new varied UNC687 modification dated 14th December following Ofgem’s comments. Ofgem highlights in their Urgent mod UNC797 decision letter that both modifications are alternatives but as

such there is insufficient time to consider the two together, the implications and merits of one over the other.

If either modification were to be implemented a delay of 12 months would be needed to allow enough time for the industry along with Ofgem to identify the impacts from the other fundamental reform below happening this Q1 and design a robust final mod proposal that could be properly consulted on and efficiently and prudently implemented in the interest of consumers.

1. Suppliers have fixed Tariffs for customers for the April 2022 year, and it will mean a windfall for non-domestic suppliers (customers could be overpaying) and further unjustified cost increase for Domestic suppliers at a time when so many are struggling and failing. This could precipitate this vicious circle and decrease competition even further and for these reasons neither UNC797 nor UNC687v meets Relevant Objective C (the facilitation of effective competition between gas shippers and between gas supplier).
2. Insufficient time to consider the two proposals alongside each other in order to understand the full impact across all shippers/ suppliers and therefore consumers.
3. Lack of impact assessment for such a material mod and value (£877m) at a critical point in time
4. Linked to the SVT Cap review – we know there is a material review of the customer tariffs in hand and therefore this leaves little time to consider this interaction. For example - UNC797 proposes recovery on a pence per peak day KWh, whereas, the SVT Cap tries to convert this into pence per KWh charge. This will create unintended consequences and potentially Winners and Losers along with likely increased charging volatility.
5. The interaction of Ofgem's 3rd party SOLR financing review – Ofgem issued this review on 30th December which could also have a material impact on the recovery of SoLR costs and the way GDM recover their costs. Time is needed to consider the implications of this proposal alongside these two modifications.
6. The notice period for fundamental transportation charge changes has been increasing from 6 to 15 months to provide certainty and consistency in charging (see Gas charging review UNC621/678 objectives) and implementing such a rapid and fundamental change with a maximum of 2 months' notice will have unintended consequences and set a dangerous precedent. In Electricity the default notice period for Distribution (Duos) charges is 15 months and therefore a 12 month notice period would be consistent with this.
7. Insufficient time for GDNs and Shippers / suppliers alike to make the necessary system changes.

Given all these material issues above, notwithstanding the fact that 0797 is dealing now with circa £877m compared to £5.7m under mod 687V, this mod needs much more development and consideration with so many other moving parts to ensure there are no unintended consequences or market distortions before it can be implemented. We strongly suggest an Impact Assessment is undertaken to fully understand the impacts on consumers before it can be implemented along with a sufficient notice period.

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

We believe there is insufficient time for GDNs and Suppliers to change their systems and processes and tariffs for a 1st April 2022 implementation date given how much work is

needed in understanding the implications and deciding on the best coordinated approach to take in the consumer's interest before then.

Further as noted the notice period for transportation charge changes has been increasing from 6 to 15 months and implementing such a rapid and fundamental change with a maximum of 2 months' notice will have unintended consequences and set a dangerous precedent. We suggest a minimum of 12 months' notice on the final detailed proposal and therefore not before April 2023.

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

Impossible to calculate the impact on our business and our customers due to the lack of time and impact assessment on both suppliers and consumers.

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

As above.

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.*

As above.

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

As above.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Dr Diana Casey |
| Organisation: | Energy Intensive Users Group |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i> |
| Relevant Charging Methodology Objective: | <p>a) Positive/Negative/None * <i>delete as appropriate</i></p> <p>c) Positive/Negative/None * <i>delete as appropriate</i></p> |

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

The Energy Intensive Users Group (EIUG) supports this modification - including market segregation preceding volumetric charge allocation. The EIUG would not support volumetric allocation without segregation into domestic and non-domestic sectors.

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

Implementation should be as soon as possible to ensure that charges are appropriately allocated between sectors and across consumers.

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

No Comment

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

The cause of such high Supplier of Last Resort (SOLR) costs have arisen from domestic suppliers effectively 'short selling' gas and power for which they had no underlying forward trades, or having inadequate risk management in place. The domestic price cap has exacerbated this position. Licensing by Ofgem should have ensured that a greater level of supplier security against exposure to market volatility was in place when supplying domestic consumers.

In contrast, for many large industrial customers, this market price risk is not taken by the licensed suppliers as any exposure is passed through to end consumers via their flexible purchasing supply contracts. A large part of the industrial consumer base therefore accepts market price risk themselves and the supplier takes little or no associated market risk.

Given the above, there is a clear difference between supplier's exposure to market prices when supplying domestic consumers and when supplying larger industrial consumers. It would therefore be plainly unfair to allocate any of the domestic sector SOLR costs to industrial consumers on flexible purchasing supply contracts who bear the market risk themselves, with suppliers not taking any of the attendant market risks.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Phil Broom |
| Organisation: | ENGIE Gas Shipper Limited |
| Date of Representation: | 4/1/2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | <p>a) Positive</p> <p>c) Positive</p> |

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

Given the significant and unforeseen (at the time of the original modification) surplus wholesale costs which are sure to feature in forthcoming LRSP claims it is even more important now that costs arising from SoLR are attributed to the initiating market sector. Accurate cost attribution will avoid cross subsidy of costs between consumer types and better allow for cost recovery via the Ofgem price cap allowances going forwards.

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

As recognised in Ofgem's "minded to" letter for UNC0687 it is crucial to have a decision on cost allocation prior to the notification of final price cap allowances by February 2002 if the resulting increases in DN charges are to be applied in 2022/23 formula year. All market participants need clarity on their charging base to allow for accurate consumer pricing, their own accounting purposes, and to allow the speedy recoup of LRSP claims for those suppliers inheriting consumers as part of the SoLR processes.

The implementation of the charge itself is less important than having clarity on the decision. If there is a delay to the creation of the new charge type, costs can be accrued for whilst implementation is finalised.

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

All market participants require clarity on their cost base as soon as possible to accurately price forward looking contracts, for accounting purposes, and to inform affected customers in advance of any potential impacts to their transportation costs.

This solution is more complex to administer with more complex charging method and more complex invoice validation than 0687V and hence we prefer the original solution.

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

Unable to assess due to time constraints.

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.*

Nothing at this stage.

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

N/A

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------|
| Representative: | Clare Manning |
| Organisation: | EON |
| Date of Representation: | 04/01/2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) None |

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

As with our representation on Modification 0687 our primary concern is with the timelines for implementation and that there has been no discussion of this modification at work group to really understand whether the solution will deliver the intention or to ascertain the full impacts.

The modification mentions the possibility of both an interim and enduring solution; we would again question the benefit of an interim solution for the reasons outlined in our response to 0687, namely that a) there already exists a mechanism for LRSP recovery and b) the significant amount of industry change already planned for Q1 2022.

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

We have not had sufficient time to properly impact assess this change so we are unsure if shippers would be able to deliver the required system changes in time for a 1 April 2022 delivery. Our preference would be a robust, enduring solution in April 2023

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

As currently proposed shippers would face costs in implementing an interim solution and then again for implementing the enduring solution. We have not yet had the opportunity to fully impact assess and are unsure if we could deliver the changes in time for 1 April 2022

We would require all DNs to complete the charging statement in a consistent way; if each party does it differently this will add cost in the form of resources to validate the invoices.

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

The legal text regarding the use of the term “Specified Amount” appears to both refer to the whole amount of a Supplier’s claim and then immediately be then defined as the amount notified by the Authority to a specific DN Operator, so this should be clarified by eg. “Total Specified Amount” and “DN Operator’s System Specified Amount” or similar.

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.*

As with Modification 0687, the issue that costs are split based solely on the number of meter points in each region, regardless of type remains. When Ofgem splits the costs between the DNs, it should do so taking into account their respective domestic and non domestic meter split.

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

No comment

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--|
| Representative: | Christopher Rudd |
| Organisation: | Frank Rudd & Sons Woodend Nursery |
| Date of Representation: | 4 th Jan 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) Negative * <i>delete as appropriate</i> c) Negative * <i>delete as appropriate</i> |

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

This change applies the burden of smaller gas suppliers' failure on the larger gas consumer. This is an unreasonable change as these smaller suppliers operate in the smaller supply market and therefore the costs of their failure should be borne by the small consumer – for which market these suppliers intend.

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

None

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

Significant impact in gas costs, which are already at an all time high that threatens our ongoing viability as a business. Gas costs which are typically 25% of our cost base have been subject to increases in the region of 500% which is not sustainable for our business.

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

no

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

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

We are struggling to pay gas costs currently as our sales to supermarkets do not reflect the true price increases of gas we are incurring in the past six months.

Representation Draft Modification Report

Urgent Modification 0797 Last Resort Supply Payments Volumetric Charges

1. **Consultation close out date:** 4th January 2022
2. **Respond to:** enquiries@gasgovernance.co.uk
3. **Organisation:** Gazprom Energy
5th Floor
8 First Street
Manchester
M15 4RP
4. **Representative:** Steve Mulinganie
Regulation Manager
stevemulinganie@gazprom-mt.com
0799 097 2568 / 0751 799 8178
5. **Date of Representation:** 31st December 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:**
The Modification aligns the approach in the electricity market and is consistent with Ofgem's minded to position in its letter of the 7th December 2021 and stated aim of allocating Supplier of Last Resort (SoLR) costs to the market sector from which they originate i.e. polluter pays.
8. **Are there any new or additional Issues for the Modification Report:**
No
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** with the proposer that this modification is positive in respect of Relevant Objective(s) **(a) and (c)**

(a) It ensures DNO's cost recovery is better targeted and reduces the level of cross subsidy

(c) The proposal better targets costs between market sectors thus reducing the levels of cross subsidy and thereby supporting the promotion of effective competition between Gas Shippers and Suppliers

We note that the use of a Volumetric approach will more effectively allocate costs, within the relevant sector, as opposed to a flat standing charge as proposed in 0687V.

In evaluating both 0687V and 0797 and considering which better facilitates the relevant objectives, the ability for either to be implementable from 1st April 2022 has been a key assumption. If 0797 cannot be implemented from the 1st April and 0687V can be implemented, then we would prefer 0687V over 0797 due to the undue detrimental impact on non-domestic customers of any implementation post 1st April 2022.

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?

This modification needs to be **implemented as soon as reasonably practicable to allow the changes to take effect in April 2022.**

13. Legal Text:

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

We **have not** reviewed the Legal Text provided.

14. 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.

No.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------------------|
| Representative: | Gareth Evans |
| Organisation: | ICoSS |
| Date of Representation: | 29 th December 2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

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

ICoSS agrees with the proposer that the lack of any explicit provision to recover SoLR costs from the market sector they originate from will create a cross-subsidy between the non-domestic and domestic sectors from any LRSP claims arising. This modification provides a clear process for apportioning costs between domestic and non-domestic sectors and so will further relevant objectives a) and c).

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

To avoid a significant cross-subsidy between the domestic and non-domestic markets it is critical that this solution is delivered in time for the GDNs to take account of it when setting transportation charges at the end of January 2022.

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

Members will incur marginal costs in adjusting prices to take account of the revised transportation charging methodology.

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

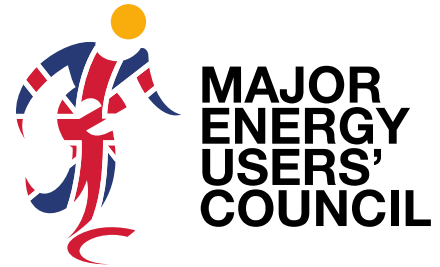
We have not reviewed the legal text.

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.*

None

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

We note that this modification is effectively an alternate to UNC Modification 0687V. When the two modifications are compared, we believe that UNC Modification 0797 is marginally more beneficial compared to UNC Modification 0687V, in that it intends to base charges on a peak capacity basis so aligning costs with consumption. For the avoidance of doubt ICoSS is supportive of both modifications as they remove any cross-subsidy between domestic and non-domestic markets from SoLR events.



Joint Office of Gas Transporters,

8 Fenchurch Place
London
EC3M 4AJ

T: 020 3432 0333
E: enquiries@meuc.co.uk
www.meuc.co.uk

Dear Sir or Madam

UNC Urgent Modification 0797

The Major Energy Users Council supports the implementation of this Modification, as it provides a clear process for apportioning costs between domestic and non-domestic sectors and so will further relevant objectives a) and c).

We note the similarity between 0687 and this modification and our support would be for whichever can be implemented in time for the GDNs to amend their charges from 1st April 2022, however as by linking the recovery of SoLR cost to the end consumers usage this modification should result in a fairer distribution of costs.

MEUC would also repeat that as the recovery of the SoLR cost in a single year will lead to a large increase in domestic transportation charges followed by a similar reduction for the following year, a means should be found to spread the recovery over the remaining four years of the current GDN price control.

Yours truly,

Eddie Proffitt
Technical Director, MEUC
M: 07879 255251 eddie.proffitt@meuc.co.uk

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Rebecca Hooper |
| Organisation: | Mineral Products Association |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i> |
| Relevant Charging Methodology Objective: | <p>a) Positive/Negative/None * <i>delete as appropriate</i></p> <p>c) Positive/Negative/None * <i>delete as appropriate</i></p> |

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

The Mineral Products Association (MPA) supports this modification but would not support volumetric allocation without segregation into domestic and non-domestic sectors.

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

Implementation should be as soon as possible to ensure that charges are appropriately allocated between sectors and across consumers.

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

No Comment

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

Industrial gas consumers are exposed to market cost risks as their suppliers pass on increased costs through their energy bills. Domestic customers are protected by the price cap – meaning that it is the supplier taking the market cost risk rather than the domestic consumer. The additional costs resulting from “supplier of last resort” measures result mainly from failures in the domestic market, with few industrial energy suppliers falling into difficulty. As such, it is unfair to allocate costs resulting from domestic supply issues to industrial consumers already paying market costs; therefore the MPA strongly support this proposal for market segregation.

Joint Office

Enquiries@gasgovernance.co.uk

30th December 2021

Dear Sir or Madam,

Re: 0797 (Urgent) Last Resort Supply Payments Volumetric Charges

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

NGN supports this Modification Proposal.

Reason for Support:

We support this Modification Proposal as the introduction of a new Supplier of Last Resort (SoLR) Customer Charge should provide a fairer distribution of recovery of allowed costs associated with a SoLR event. The fact that this will be based on volume of gas used should result in a lower SoLR charge for some vulnerable customer groups, including those in fuel poverty.

We believe that it is appropriate that the cost of a SoLR should be recovered from the market sector that it was incurred in, and that by linking this to the end consumers usage should result in a fairer distribution of costs, thereby furthering the following Relevant Charging Objectives:

- a) *Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business*
- c) *That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.*

We would also like to note, that this solution closer aligns recovery of SoLR costs to the electricity markets processes.

Implementation:

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

Due to the timeline for publication of Distribution Network charging for 2022/23 this modification will need to be approved by Ofgem, prior to 20/01/2022, and implemented in time for costs to be applied from April 2022. As with 0687V, an interim solution will be required until the enduring solution can be implemented.

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999

a 1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU

t 0113 397 5300
w northerngasnetworks.co.uk

**we are
the network**

Impacts and Costs:

What analysis, development and ongoing costs would you face?

We do not see that this modification will have any material impact to NGN to implement the solution.

Legal Text:

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

We believe that the legal text will deliver the intent of the solution.

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

Whilst we support both modification proposals currently raised relating to the distribution of SoLR costs (the other being UNC0687V), we note that this proposal looks to take into account actual usage. This has the ability to lower the figure by which bills of fuel poor customers and other low usage vulnerable customers would increase by, in comparison to larger homes and more, seemingly, financially secure customers. This therefore would appear to be a slightly better targeted, and therefore fairer, solution.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Market Services Manager (Industry Codes)
Mobile: 07580 215743

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999



1100 Century Way
Thorpe Park Business Park
Colton, Leeds LS15 8TU



0113 397 5300



northerngasnetworks.co.uk

**we are
the network**

Representation - Modification UNC 0797 (Urgent) Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------|
| Representative: | Dion Tickner |
| Organisation: | Octopus Energy |
| Date of Representation: | January 4th |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) None |

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

Whilst we are supportive of the intention to provide transparency and fairness to the process for recovering Last Resort Supply Payments we are concerned that the pace of this code modification does not allow time for unintended consequences of a volumetric methodology to be fully debated and understood. We are not opposed to the concept of debating this modification however the speed at which this modification has had to be considered has led us to oppose it.

This modification was raised by a non-domestic supplier and as such it cannot be presumed that this modification would consider the impacts of a volumetric methodology on the domestic market, however it appears to be raised in relation to both the non-domestic and domestic market. It is therefore possible that there could be unintended consequences that are at risk of being missed due to the urgency of this modification.

In concept this modification will protect those who use less gas which seemingly makes the LRSP process more fair. However, suppliers have not had enough time to fully understand how this code mod works in conjunction with existing codes as well as code modifications live or in the pipeline and other mechanisms in the domestic market (such as the Price Cap).

Of greatest concern, multiple urgent code mods the industry creates a hasty solution that, although may be well intentioned, unfairly impacts consumers.

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

n/a

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

none

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

n/a

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.*

n/a

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

n/a

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Paul Bedford |
| Organisation: | Opus Energy Limited |
| Date of Representation: | 04 January 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | <p>a) Positive</p> <p>c) Positive</p> |

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

We support the intent of this proposal and believe it will lead to a fairer allocation of charges between non-domestic consumers than modification UNC0687. We agree that basing the new charge type on a volumetric basis will lead to smaller gas consumers paying a more proportionate amount of charges compared with larger consumers.

We believe the modification supports Relevant Charging Methodology (a) as it is likely to result in charges that are more appropriately targeted, and which better reflect the costs from a SOLR that should be attributed to customers. We also believe that the proposal supports Relevant Charging Methodology (c), in that by allocating costs to the appropriate category of supply points, there should be less cross-subsidisation between domestic and non-domestic consumers. Additionally, a volumetric rate will more appropriately apportion costs based on consumption.

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

We believe the methodology should be implemented as soon as reasonably practicable and, in line with Ofgem's 'send back' letter, for charges to be effective from 1 April 2022.

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

No comment.

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

On reviewing the legal text provided, we note that it may not fully align with the business rules described in points 4-6 and the intent of the modification. Specifically, for 11.4 the calculation of shipper charges is not expressed as a formula.

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.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Laura Holt |
| Organisation: | R & L Holt Ltd & Springhill Nurseries Ltd |
| Date of Representation: | 4 th Jan 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | <p>a) Negative * <i>delete as appropriate</i></p> <p>c) Negative * <i>delete as appropriate</i></p> |

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

This change applies the burden of smaller gas suppliers' failure on the larger gas consumer. This is an unreasonable change as these smaller suppliers operate in the smaller supply market and therefore the costs of their failure should be borne by the small consumer – for which market these suppliers intend.

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

None

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

Significant impact in gas costs, which are already at an all time high that threatens our ongoing viability as a business. Gas costs have gone from 12.3% of our cost base to 49.42% of our cost base in the last five months comparing this year with the same period last year already just for R & L Holt Ltd.

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

no

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

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

We are struggling to pay gas costs currently as our sales to supermarkets do not reflect the true price increases of gas we are incurring in the past six months. Added to that the deadlines imposed by Ofgem to consider these amendments coincide with the Christmas and New Year holidays and that has made it difficult for all industrial/commercial consumers to respond or even know about them. Hence I suspect the response rate is lower than expected at a non holiday time of year.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Mark Bellman |
| Organisation: | ScottishPower |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Qualified Support |
| Relevant Charging Methodology Objective: | <p>a) None</p> <p>c) Positive</p> |

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

ScottishPower supports the principle of cost reflectivity and believes that business customers should not be unfairly burdened with LRSP claims from Domestic suppliers

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

Apr-22 but **ONLY IF** DNOs are able to publish their rates for 2022/23 by 31 January **AND** Ofgem fully reflect the costs in the price cap applicable from Apr-22

ScottishPower has had insufficient time to fully impact assess this proposed significant change to charges

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

Systems and process costs to develop and operate validation of this new cost-type. That also requires Ofgem to ensure that the appropriate data required to so do is made available to all shippers and suppliers

All DNOs must use a common method to complete the charging statement to minimise inefficiencies in the application and validation of this new charge

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

11.1 SoLR Customer Charges are payable following receipt by a DN Operator of a valid claim

They are not “payable following receipt” of a valid claim, they are payable following invoicing by the DNO, pursuant to the DNO’s published rates (incorporating the valid claim) and terms.

"Specified Amount" is the amount specified by the supplier in the valid claim

This should be the amount approved by the Authority for the LRSP claim, not the original amount submitted by the supplier (the two can be different where the Authority rejects some elements of a supplier’s claim)

Add to 11.5 “The DNO should publish the elements of each valid claim that is recovered in each relevant year so that Suppliers can validate the charge, including for the Transitional Year, identifying that part of the valid claims already recovered previously by the DNO” or similar

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 Response

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

None

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | David Mitchell |
| Organisation: | Scotland Gas Networks Ltd & Southern Gas Networks Ltd |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | <p>a) Positive</p> <p>c) Positive</p> |

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

SGN Supports this modification proposal as it will provide a transparent allocation of charges between the domestic and non-domestic consumers. We believe that by using a volumetric approach this modification will ensure that end users' proportion of the SoLR charge is representative of their gas usage, this should result in lower charges for some vulnerable customers and fuel poor customers.

This modification supports Relevant Charging Methodology (a) as it is likely to result in charges that are more appropriately targeted, which will be reflective in the costs from a SOLR that will be attributed to either the domestic or non-domestic customers on the network as directed by the authority. We also believe that this modification facilitates Relevant Charging Methodology (c), as it will allocate costs to the relevant category of supply meter points resulting in less cross subsidisation between domestic and non-domestic consumers. As the charges in this modification are based on a volumetric approach, we believe that they will be fairer.

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

We believe that this modification should be implemented as soon as possible to provide industry parties with the certainty of the charges that will be levied.

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

No material costs to SGN have been identified from implementing this modification.

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

We are satisfied that the legal text will deliver the intent of the modification.

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.*

None identified.

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

SGN is supportive of both this modification and UNC modification 0687V that have been raised in relation to SoLR Charges. If we had to choose one modification over the other to be implemented then we would prefer 0797 to be implemented as it has the potential to lower the SoLR charge applicable to bills of vulnerable and fuel poor customers and those who may use less gas. We are also aware that the electricity market has implemented a similar volumetric SoLR charge therefore 0797 would align with this approach.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--|
| Representative: | Francesca Bille |
| Organisation: | Springhill Farms (Pershore) Ltd |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) Negative c) Negative |

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

I oppose the implementation as I believe the proposed change is an unreasonable burden for greater gas consumers, compared to smaller. It is partial that the suppliers who have not created this problem, face the burden of covering it up for those who have failed to participate in the market.

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

None

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

Gas prices and costs are currently at an unprecedented, historic level and my business faces difficult conversations regarding our future. Our energy costs have risen from a base level of 15% to currently 50% from the last two quarters of 2021, compared to the same time frame, pre-pandemic.

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

No.

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.

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

As a business that grows tomatoes in industrial sized glasshouses with advanced lighting and heating technologies, the increase in energy prices in recent months has hit us hard. We have had to make tough decisions which have determined the growth of our crop and ergo, our sales to retailers will decrease compared to the last FY.

Furthermore, the deadline for this consultation response being on January 4th, the first, real working day of the new calendar year, is a poor choice from Ofgem, and such I would not be surprised if the consultation response is considerably lower than what it would be if it was carried out in summer, our peak season, for example.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--|
| Representative: | Mark Jones |
| Organisation: | SSE Energy Supply Limited |
| Date of Representation: | 04 January 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

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

We support UNC 0797 (Urgent) as it will provide consistency to the gas and electricity markets regarding the correct allocation of SoLR costs to the sector from which they originate. The current situation creates an inequitable cross-subsidy between the non-domestic and domestic sectors within the gas market.

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

We would like to see the modification implemented as soon as possible.

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

No significant costs have been identified by us if this modification is implemented.

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

Yes.

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.

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

UNC 0797 (Urgent) is a very similar modification to UNC 0687V, and whilst we support both modifications, we prefer UNC 0797 (Urgent) as it allocates non-domestic SoLR costs to the non-domestic sector in a more equitable manner. However, our preference is very dependent on it being able to be implemented in a similar timeframe as that planned for UNC 0687V, in order that it can be implemented for all upcoming SoLR levy costs, including those to be recovered under the faster SoLR levy process.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--|
| Representative: | Louise Hellyer |
| Organisation: | TotalEnergies Gas & Power |
| Date of Representation: | 4 Jan 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

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

TotalEnergies Gas and Power are in support of modifications which are delivering the objective of the letter issued by Ofgem to target cost recovery of SoLR claims to the part of the market which generated the cost. Although a meter point charge may be closer aligned to Power models, we agree that a volumetric approach is also fair, possibly more so to low consuming domestic customers.

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

We would like to see this implemented as soon as possible to get reflected within the GDN's April 22 charging statements. This is to ensure that we do not see significant impacts to the non-domestic sector as outlined in Ofgem's recent communications in this area.

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

There would be minimal one-off costs for implementing this.

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

We have not reviewed the legal text.

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

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

No further comments.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Vicky Bell |
| Organisation: | Utilities Services MediaCityUK Ltd |
| Date of Representation: | 6 January 2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | <p>a) Negative</p> <p>c) Negative</p> |

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

Given the short timescales available to assess this change, we have not had the time to conduct a full impact assessment however do wish to record our objection to the proposal.

We currently run a Combined Heat & Power (CHP) plant which provides heat and/or hot water to 3,860 domestic customers and 14 non-domestic customers. As our business is classed as a non-domestic business, we could be impacted more by this proposal which is attempting to protect domestic gas consumers from increasing gas prices as a result of the current energy crisis. Whilst this is a plausible principle, it is equally important to understand the potential impact on other domestic customers that are serviced through other sources who are classified as large users of gas. To ensure our business remains financially viable, we would have no option but to pass on any inflated costs to our consumers, some of which may be experiencing financial difficulties and heading towards fuel poverty; we would therefore encourage wider considerations be made to protect all domestic consumers that would be impacted and not just those consumers that are direct users of gas.

As a result of the recent increase to UIG we have already experienced a circa 40% price increase in standing charges which we have absorbed having received no notice of the significant increase. This change proposal if approved may lead to another significant price increase given that we are classified as a large user. I would urge both the Panel and the Authority to consider the consequential changes of this modification and wider ramifications on domestic customers in the heat network industry; equally given the recent BEIS publication providing approval to regulate heat networks it is worth considering how changes made to pricing now may need to be revisited once formalised under a regulatory setting and the potential consequence to heat network businesses

should they find that the business is no longer financially viable to run. Whilst we appreciate there is no easy solution to the current energy crisis and continually rising wholesale gas prices, I would urge caution in implementing solutions without providing all impacted business and consumers enough time to fully impact assess any such proposals.

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

We would suggest a minimum 6 to 12 month lead time to implementation which would provide sufficient time to review our pricing and provide sufficient notice to customers of increases to their charges for the use of heat and hot water. To support implementation all required data needs to be published and available well ahead of any proposed implementation date.

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

Minimal costs to deliver however we have not had time and there is insufficient information available to conduct a full financial impact assessment to quantify the cost to our business and therefore the pass on costs to the customers of our heat network.

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

We have not reviewed the legal text drafted.

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.*

If provided with more time and more information, we could share the forecasted financial impacts to domestic customers of our heat network; any such consequential changes to the wider industry should be detailed and considered as part of this proposal.

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

Having taken some time to read through all of the published documents including Ofgem's release, this appears to have been rushed with very little risk analysis considered for either the volumetric or fixed charge approach. We would encourage that should a decision be made on either of these approaches, the method needs to be standardised across all GDN's.

More risk analysis is required to determine and quantify the potential risks impacts for the proposed change to either volumetric or fixed charges however there is not currently enough information available for us to be able to accurately evaluate this. We would encourage that this be considered and for the opportunity to be provided to undertake this before any change is considered for approval.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Robert Johnstone |
| Organisation: | Utilita |
| Date of Representation: | 05/01/2022 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | <p>a) None</p> <p>c) None</p> |

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

Utilita's response is 2-fold; the process and the solution.

Due to the urgent nature of this modification and the timing over the Christmas period we have not been able to give the modification the appropriate levels of consideration required, impacting the quality of input and engagement on this modification. This modification will directly impact domestic customers and the process conducted for this modification is very likely to result in a low-quality assessment and casts concerns on any decision made. Whilst the timing is unfortunate, expediting a material change on a limited quality assessment, when considering the magnitude of costs involved to be redistributed is not appropriate. Utilita support reconsideration of the modification at a later date once it has been through a more rigorous end-to-end change process.

We do not approve of the modification intention. This sort of modification to separate out industry-wide costs is usually to apply commercial incentives to rectify issues (by introducing a polluter pays style model). In this case focussing costs on to remaining domestic suppliers does not create commercial incentives nor a polluter pays model. We see no justification for a move to separating out domestic and commercial suppliers in the way proposed. Failed suppliers are a byproduct of current market conditions which this mod doesn't address.

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

We do not support implementation of this modification as proposed in the modification report. We would like to see this change revisited and diligently assessed prior to any further proposed implementation.

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

N/A

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

N/A

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.*

N/A

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

N/A

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | Smitha Coughlan |
| Organisation: | WWU |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | <p>a) Positive</p> <p>c) Positive</p> |

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

WWU supports this modification as it more accurately apportions cost from Supplier of Last Resort (SoLR) events to the appropriate market sector.

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

The suggested timeline causes concern for WWU; specifically, around timescales for calculation of pricing models and obtaining internal governance acceptance prior to final publication of prices on the 31st January. Also of note is the modification 0687V that proposes a different solution to the issue. This modification puts additional demands on resources at an already time sensitive period.

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

To implement for April 2022 a temporary solution will be required with an enduring solution to follow. We have not done a detailed review of cost impact.

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

We have not identified anything to indicate that the legal text will not deliver the intent of the Solution; however, we do have point to make regarding the transition text. This requires a DN to process valid Supplier of Last Resort Payment claims received by 31st December 2021. We acknowledge the recently issued statutory consultation on changing the date in Standard Special Condition A48 and the letter of comfort issued by Ofgem (referenced in the modification); nevertheless, as the licence currently stands the proposed UNC text requires DNs to set charges in breach of licence. It may well be that

by the date on which DNs are required to publish charges that Ofgem will have directed a change to the data in SSC A48 thereby resolving the problem.

We are raising this as we do not believe that it is good practice to have text that requires a party to breach licence even when the expectation is that this will be resolved.

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

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

We again draw attention to the restricted timescales that arise from the proposed timeline. Pricing Model calculation, data assurance and board sign off usually take a minimum of 10 workings days to achieve. Reducing this timeline increases the risk of material error in our pricing calculations.

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: **5pm on 04 January 2022**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|------------------------------|
| Representative: | Nigel Evans |
| Organisation: | West Mercia Energy |
| Date of Representation: | 4 th January 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

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.*

Insert Text Here

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

Insert Text Here

Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

| | |
|---|-----------------------------|
| Representative: | Ellie Rogers |
| Organisation: | Xoserve |
| Date of Representation: | 04/01/2022 |
| Support or oppose implementation? | Comments |
| Relevant Charging Methodology Objective: | <p>a) n/a</p> <p>c) n/a</p> |

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

n/a – no comment on support or opposition of the Urgent Modification.

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

We have assessed this Urgent Modification with regards to the ability to implement a system solution such that the charges may become effective on 1st April 2022. This Urgent Modification seeks to apply a charge to each User's aggregate Non-Domestic and Domestic Peak Day position.

At the DSC Change Management Committee (ChMC), Change Managers had approved the initiation to commence work to deliver the interim solution for XRN4992 'Modification 0687 - Creation of new charge to recover Last Resort Supply Payments' in advance of any decision being received on Modification 0687.

We have assessed Urgent Modification 0797 and provided that the monthly Last Resort Charge calculation is based upon a single monthly snapshot of each User's portfolio, then we will be able to utilise the proposed interim solution for XRN4992. Based on this, Urgent Modification 0797, if approved and provided that the variation of XRN4992 is agreed by DSC ChMC, could be implemented such that charges from 1st April 2022 could be calculated in accordance with this Modification proposal.

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

A high-level impact assessment for the XRN4992 / Modification 0687 interim solution has been detailed as £25,000 - £50,000 to implement. As detailed above, providing the Last Resort Charge calculation for Urgent Modification 0797 is based upon a single

monthly snapshot of each User's portfolio, we expect to utilise the proposed interim solution for Modification 0687 / XRN4992 and therefore anticipate the indicative high-level implementation cost to be the same (£25,000 - £50,000). Please note, due to the timescales available to assess the Urgent Modification, we have not undertaken the full impact assessment for the change therefore this high-level cost is indicative only.

Please note that this cost and assessment is based on an interim solution only. To implement an enduring solution (to be delivered post 1st April 2022 if agreed by DSC ChMC), a further impact assessment of impacts and costs would be required.

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

In light of the timescales available, Xoserve have not conducted a review of the proposed legal text for Urgent Modification 0797.

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.*

n/a

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

n/a