



Statement of Last Resort Supply Payments 2020/21

July 2021



Introduction

Pursuant to Standard Special Condition A48 of the Gas Transporter Licence, this statement provides details of the payments made to 3 Shippers under the Supplier of Last Resort (SoLR) process, and corresponding collected revenue values derived from the associated increase to transportation charges made for the 2020/21 formula year.

Paragraph 11 of Standard Special Condition A48 of the Gas Transporter Licence (Last Resort Supply, Payment Claims) includes the following obligations for Gas Distribution network companies:

'The licensee shall prepare, in respect of each year in which it increases or decreases charges in pursuance of paragraph 3, 5 or 6, a statement showing –

(a) the aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 3;

(b) the aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 5;

(c) the aggregate amount of the decrease in its revenue resulting from decreases in charges in pursuance of paragraph 6, and

(d) in the case of each last resort supply payment, the aggregate payments to the claimant made in respect of the year in question (whenever those payments were made).'

a) The aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 3

Cadent used the 'Miscellaneous Pass Through' licence term to increase allowed revenues in order to recover payments made to the claimants (OVO Energy, Shell Energy, & Together Energy). The adjustments are summarised in the table below:

	EAST OF ENGAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
Target 2020/21 Supplier of Last Resort Revenue recovery ⁽¹⁾	£803,085	£1,419,155	£950,107	£693,356	£3,865,703
Estimated Actual 2020/21 Supplier of Last Resort Revenue recovery ⁽²⁾	£801,817	£1,417,328	£946,058	£690,930	£3,856,133
To be returned / (collected) from Shippers in 2021/22 ⁽³⁾	£(1,267)	£(1,827)	£(4,049)	£(2,426)	£(9,570)

¹ The target amount of revenue recovery by network was based on the direction letter from Ofgem. These values were then used to increase allowed revenue and consequently increase transportation charges in 2020/21 as per paragraph 3 of standard special condition A48.

² Based on total actual collected LDZ revenue for 2020/21, we have estimated the amount of revenue recovered in relation to the SoLR claim as follows:

$$(\text{Actual LDZ Revenue Collection} / \text{Target LDZ Revenue Collection}) \times \text{Target SoLR Recovery}$$

³ The small difference between target SoLR recovery and estimated actual recovery is the value that will be returned to or collected from Shippers in 2021/22. In the transition into the RIIO-2

price control, the previous term of a two year lag for under/over collection recoveries is now just subject to a one year lag.

(b) The aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 5

Paragraph 5 of Standard Special Condition A48 states:

'If the amount paid to the claimant under paragraph 4 is less than the specified amount, the licensee shall in the following financial year –

(a) pay to the claimant (in accordance with any directions given by the Authority) the shortfall together with 12 months' interest thereon; and

(b) increase the charges referred to in paragraph 3 during the year following the relevant year to such extent as it reasonably estimates to be appropriate to secure that the consequential increase in its revenue equals the amount of that shortfall together with 12 months' interest thereon.'

(c) The aggregate amount of the decrease in its revenue resulting from decreases in charges in pursuance of paragraph 6

Paragraph 6 of Standard Special Condition A48 states:

'If the amount of the consequential increase mentioned in paragraph 3 exceeds the specified amount, the licensee shall, during the year following the relevant year, decrease the charges referred to in paragraph 3 to the extent that it reasonably estimates to be necessary in order to reduce its transportation revenue for that year by an amount equal to the excess together with 12 months' interest thereon.'

Gas Distribution network companies cannot estimate total revenue recovery until the end of the relevant year has completed, as this is reliant on a full year's transportation invoicing. The resultant over or under collection (as shown in the table above) will form part of the total LDZ recovery position for the 2020/21 formula year as reported to Ofgem in our annual Revenue RRP submission, and adjusted in our 2021/22 allowed revenue determination, inclusive of interest adjustments in full accordance with the Licence.

(d) In the case of each last resort supply payment, the aggregate payments to the claimant made in respect of the year in question (whenever those payments were made).'

Payments were made to the 3 claimants (OVO Energy, Shell Energy, & Together Energy) in 12 monthly instalments, the total of which exactly matched the amount specified in the target SoLR recovery noted above.

	EAST OF ENGAND	LONDON	NORTH WEST	WEST MIDLANDS	CADENT
Shell Energy	£29,152	£16,497	£19,517	£14,243	£79,409
OVO Energy	£1,018,444	£576,326	£681,835	£497,581	£2,774,186
Together Energy	£371,559	£210,261	£248,754	£181,533	£1,012,108
Total	£1,419,155	£803,085	£950,107	£693,356	£3,865,703

This statement has been provided to Ofgem, and published on the Joint Office of Gas Transporters website in accordance with paragraph 13 of Standard Special Condition A48.

If you have any questions in relation to this statement, please contact a member of Cadent's Revenue and Pricing Team (contact details below).

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