













| UNC Final Modification Report | | At what stage is this document in the process? |
|---|--|---|
| <h1>UNC 0687V:</h1> <h2>Creation of new charge to recover Last Resort Supply Payments</h2> | | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div> |
| <p>Purpose of Modification:</p> <p>To create a new charge, the SoLR Customer Charge, through which Gas Distribution Networks (Transporters) will recover any Last Resort Supply Payments arising from a Supplier of Last Resort event.</p> | | |
|  | Panel consideration is due on 12 January 2022 <i>(at short notice by prior agreement)</i> | |
|  | High Impact: Shippers | |
|  | Medium Impact: Gas Distribution Networks | |
|  | Low Impact: CDSP | |

| Contents | | ? | Any questions? |
|--|--------------------------------|----|--|
| 1 | Summary | 3 | Contact: Joint Office of Gas Transporters |
| 2 | Governance | 3 | |
| 3 | Why Change? | 3 |  enquiries@gasgovernance.co.uk |
| 4 | Code Specific Matters | 5 | |
| 5 | Solution | 5 | |
| 6 | Impacts & Other Considerations | 8 |  0121 288 2107 |
| 7 | Relevant Objectives | 10 | Proposer: Louise Hellyer (TotalEnergies Gas & Power Limited) |
| 8 | Implementation | 10 | |
| 9 | Legal Text | 11 | |
| 10 | Consultation 0687 | 11 |  louise.hellyer@totalenergies.com |
| 11 | Consultation 0687V | 16 | |
| 12 | Panel Discussions | 18 | |
| 13 | Recommendations | 19 |  07875 876069 |
| 14 | Appended Representations | 20 | Transporter: Scotia Gas Networks |
| Timetable | | |  david.mitchell@sgn.co.uk |
| Modification timetable: | | |  07799343082 |
| Initial consideration by Workgroup* | 10 May 2019 | | Systems Provider: Xoserve |
| Workgroup Report presented to Panel* | 15 August 2019 | |  UKLink@xoserve.com |
| Draft Modification Report issued for consultation* | 15 August 2019 | | |
| Consultation Close-out for representations* | 06 September 2019 | | Other: Gareth Evans (Waters Wye Associates) |
| Final Modification Report available for Panel* | 09 September 2019 | |  gareth@waterswye.co.uk |
| Modification Panel decision* | 19 September 2019 | | |
| Ofgem Send Back | 08 December 2021 | |  07500 964447 |
| Variation Request Raised | 08 December 2021 | | |
| Variation Request presented to Panel | 14 December 2021 | | |
| Draft Modification Report issued for consultation | 14 December 2021 | | |
| Consultation Close-out for representations | 30 December 2021 | | |
| Final Modification Report available for Panel | 05 January 2022 | | |
| Modification Panel recommendation | 12 January 2022 | | |
| * refers to Modification 0687 | | | |

1 Summary

What

In the last 12 months there have been a number of Supplier of Last Resort (SoLR) events that have resulted in claims from SoLR suppliers for their outstanding costs (Last Resort Supply Payment or LRSP). At present there is little detail in the gas Transporter licence on how these costs are recovered from the wider shipper community, outside of it being recovered via transportation charges.

Why

As has been highlighted in the electricity market, the lack of detail on how costs are allocated to customers can potentially create confusion on how these costs are apportioned. In addition, it also means that customers may end up cross-subsidising SoLR events from other market sectors.

How

It is proposed that a new customer charge, the SoLR customer charge, is introduced into the Gas Transportation charging statements. This new charge will be split by domestic and non-domestic Charging Codes and will be calculated for each network. The charge, which will be on a Supply Meter point basis, will be calculated to recover the costs originating from each market sector, with mixed portfolios allocated by market sector.

2 Governance

The Modification Panel determined that this Modification should follow Authority Direction procedures as two LRSP claims have been approved since January 2018. In both cases the materiality of the claim amounts to around £5.9m for the gas market. This clearly demonstrates that any change on how these costs are allocated will have a material impact on Shippers and therefore competition in, or commercial activities related to, the shipping, transportation, or supply of gas so this Modification will require Authority Direction.

Requested Next Steps

It is the recommendation of the Workgroup that the Panel should accept this report and issue a Draft Modification Report to consultation.

The Workgroup agrees with the Panel determination that this Modification should follow Authority Direction procedures for the reasons set out above.

Note that the Workgroup recommendations above relate to Modification 0687.

3 Why Change?

Background to SoLR events

In the last couple of years there have been a number of supplier failures resulting in the use of the Supplier of Last Resort (SoLR) process to reallocate the customers of the failing supplier to another licence holder (SoLR supplier). A SoLR supplier can claim any additional costs over and above what it expects to recover from the transferred customers, in accordance with Supplier Licence Condition 9. This can include credit balances outstanding and wholesales costs for domestic customers; non-domestic customer credit balances and wholesales costs are not protected. The SoLR costs will then be recovered from Shippers via Transporters.

To date, Ofgem has undertaken an auction process to determine who the SoLR supplier will be, which means that the amount of cost to be recovered from the industry varies, as set out below:

| Date | Company subject to SOLR | SOLR awardee | Costs claimed from industry |
|----------------|--------------------------------|------------------------------------|---|
| November 2016 | GB Energy Supply | Co-Operative Energy | Yes – £5.76m from gas, £7.72m electricity. Note this decision was made in March 2018. |
| January 2018 | Future Energy | Green Star | No – Ofgem did commit to covering costs from levy, but no claim has occurred. |
| July 2018 | National Gas and Power Limited | Hudson Energy | Unknown, no specific reference in decision. |
| July 2018 | Iresa | Octopus Energy | Yes - £5.92m gas, £7.24m electricity |
| September 2018 | GEN 4U | Octopus Energy | Unknown |
| October 2018 | USIO | First Utility | Yes. – First Utility committed to the lowest amount |
| November 2018 | Extra Energy | Scottish Power | Yes – “partly by Scottish Power and partly by industry levy”. |
| November 2018 | Spark Energy | OVO Energy | Yes – “partly by OVO Energy and partly by industry levy”. |
| December 2018 | OneSelect | Together Energy (Eddington Energy) | Yes– “partly by Together Energy and partly by industry levy”. |
| January 2019 | Economy Energy | OVO Energy | No - Ovo committed to paying credit balances in full. |
| January 2019 | Our Power | Utilita | No - Utilita committed to paying credit balances in full |
| March 2019 | Brilliant Energy | SSE | Yes. |

This indicates the likelihood of a number of further material SoLR claims over the coming years, supporting the need for a specific cost recovery mechanism.

LRSP process

SoLR suppliers can make a claim for a Last Resort Supply Payment (LRSP) to cover its costs once the customers have been transferred. For the two LRSP claims made to date, domestic credit balances have been the largest item (note that the values quoted are for both electricity and gas):

| Date | Co-Operative Energy | Octopus Energy |
|--------------------------|---------------------|----------------|
| Credit Balance component | £10.93m | £10.98m |
| Total | £14.90m | £13.2m |

After an LRSP has been approved by Ofgem, the gas Transporters then reimburse the SoLR supplier and recover the costs through transportation charges in accordance with Licence Condition 48. At present these costs are split between the Distribution Network Operators (DNOs) on a Supply Meter Point basis. These costs will then be added to the allowed revenue that each DNO is allowed to recover as a generic cost.

There is currently little detail in how this additional allowed revenue recovery should be handled, with no specific process set out in either the UNC or the gas transportation charging methodologies. For instance, it does not differentiate between market sectors though each market sector has different levels of protection. Though to date any LRSP claims have been treated consistently by each DNO, it is currently up to each DNO as to how the LRSP costs are incorporated into their charging methodologies.

The same issue exists in the electricity market, which has resulted in differing recovery processes being undertaken across the DNOs with some assigning SoLR costs to the market sector from which they originated via Line Loss Factors.

To ensure appropriate cost apportionment and alignment with the electricity process, there is a need to bring the same level of clarity to any gas LRSP claim processes.

4 Code Specific Matters

Reference Documents

Gas Distribution Network Operator Charging Methodologies

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

A new specific charge (SoLR Customer Charge) will be created and added to the current Gas Distribution Operators Charging Methodologies. Cost recovery will be based on whether a site is domestic or non-domestic based on market sector flags maintained by Xoserve (as determined at the time of the issuing of the invoice). This allows a more accurate cost-targeting to the market sectors they originate from and is in line with the rest of the SoLR framework but will require the development of a new charge.

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.
4. The SoLR charge will be calculated by the following for meter points with the domestic market sector flag indicator:

$$C_{dom\ meter\ point} = \frac{L_{dom}}{M_{dom}}$$

$$C_{dom\ meter\ point} = \text{SoLR customer charge per domestic meter point}$$

L_{dom}
= LRSP payment attributable to domestic customers as advised by the authority.

M_{dom} = Total number meter points flagged as domestic at calculation in market

- When issuing an LRSP direction the authority will provide the payment split between Domestic/Non-Domestic, to allow GDN's to use in pricing calculations.
- The SoLR charge will be calculated by the following for meter points with the non-domestic market sector flag indicator:

$$C_{non-dom\ meter\ point} = \left(\frac{L_{non-dom}}{M_{non-dom}} \right)$$

$C_{non-dom\ meter\ point}$ = SoLR customer charge per non – dom meter point

$L_{non-dom}$
= LRSP payment attributable to non – domestic as advised by the authority.

$M_{non-dom}$ = Total number meter points flagged non – domestic at calculation in a

Worked Example

- Assume 20m domestic meter points, 0.5m non-domestic meter points in market
- Suffolk Energy supplier goes into SoLR with 9,000 domestic and 1,000 non-domestic meter points (as determined by Xoserve at the time of the invoice).
- Essex Energy is the SoLR supplier and submits a total LRSP claim of £5m.
- Ofgem splits the LRSP between the GDNs as follows, based on their proportion of GBs' Supply Meter Points connected to their networks. They also allocate the costs £4.8m to domestic and £0.2m to non domestic:

| Network | Market Proportion | LRSP | Domestic Costs | Non-Domestic Costs |
|-------------------------------|-------------------|----------------------|----------------------|--------------------|
| Northern Gas Networks Limited | 12.50% | £623,463.33 | £598,524.80 | £24,938.53 |
| Wales & West Utilities | 11.50% | £573,217.91 | £550,289.19 | £22,928.72 |
| Scotland Gas Networks PLC | 8.30% | £413,891.91 | £397,336.23 | £16,555.68 |
| Southern Gas Networks PLC | 18.60% | £932,359.10 | £895,064.74 | £37,294.36 |
| Cadent (of which)* | 49.10% | £2,457,067.75 | £2,358,785.04 | £98,282.71 |
| <i>Cadent East of England</i> | <i>18.90%</i> | <i>£947,435.01</i> | <i>£909,537.61</i> | <i>£37,897.40</i> |
| <i>Cadent London</i> | <i>9.30%</i> | <i>£463,762.94</i> | <i>£445,212.42</i> | <i>£18,550.52</i> |
| <i>Cadent North West</i> | <i>12.10%</i> | <i>£604,848.94</i> | <i>£580,654.98</i> | <i>£24,193.96</i> |
| <i>Cadent West Midlands</i> | <i>8.80%</i> | <i>£441,020.86</i> | <i>£423,380.03</i> | <i>£17,640.83</i> |
| Total | 100% | £5,000,000.00 | £4,800,000.00 | £200,000.00 |

* please note that Cadent's claims have been aggregated at the licence holder level in previous directions, but then split out by DN in line with transportation charging statement principles.

- The calculation of the amount of cost for the East of England GDN is as follows. For this example we have assumed that the East of England has 3,800,000 domestic and 150,000 non-domestic meter points:

$$C_{dom\ meter\ point} = \frac{909,537.61}{3,800,000}$$

$$C_{dom\ meter\ point} = \text{£}0.24$$

$$C_{non-dom\ meter\ point} = \left(\frac{37,897.4}{150,000} \right)$$

$$C_{non-dom\ meter\ point} = \text{£}0.25$$

- The calculation of the amount of cost for Wales and West Utilities GDN is as follows. For this example, we have assumed that Wales and West has 2,000,000 domestic and 140,000 non-domestic meter points:

$$C_{dom\ meter\ point} = \frac{550,289.19}{2,000,000}$$

$$C_{dom\ meter\ point} = \text{£}0.275$$

$$C_{non-dom\ meter\ point} = \left(\frac{22,928.72}{140,000} \right)$$

$$C_{non-dom\ meter\ point} = \text{£}0.164$$

7. In the event of multiple LRSP claims falling into a single year, the SoLR Customer Charge will be calculated on the basis of each LRSP claim but will be aggregated to form a single charge for each Charge Code.
8. DNOs will be required to detail in price notification documents or charging statements expected details on how the SoLR customer charge has been calculated. For the avoidance of doubt, once set there will be no reconciliation of SoLR charges, in line with other transportation charges.
9. The mechanisms and timescales for recovery of the SoLR charge will be the same as that of the LDZ Customer Charge.
10. Any under-or-over recovery of the SoLR charge will be recovered via the “k” balancing mechanism (this includes any adjustment to the LRSP payment amounts due after the SoLR charge has been set if the SoLR supplier recovers outstanding amounts from the defaulting supplier). Though this is not allocated to any specific charge types, considering the low materiality of any such residual amounts we believe this is a proportionate mechanism for any recovery.

11. This approach will apply for all SoLR recovery included with Transportation costs as of 01/04/22 continuing forwards.

6 Impacts & Other Considerations

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

No impact.

Consumer Impacts

No direct impact on consumers has been identified, although Shippers, (and Suppliers) will see the transportation costs of supplying customer vary depending on the outcome of any LRSP direction. Currently any LRSP cost incurred by Transporters are fed through into allowable recoverable revenue and flow through into general transportation charges, so in terms of total recovered revenue, there is no change.

| Consumer Impact Assessment | |
|---|----------------------------|
| Criteria | Extent of Impact |
| Which Consumer groups are affected? | Not applicable |
| What costs or benefits will pass through to them? | Not applicable |
| When will these costs/benefits impact upon consumers? | Not applicable |
| Are there any other Consumer Impacts? | See text above this table. |

Cross Code Impacts

None – currently LRSP payments are not explicitly recovered via IGTs so this Modification does not need to be mirrored in the IGT UNC.

EU Code Impacts

None

Central Systems Impacts

There are likely to be system impacts as Xoserve will be required to develop and maintain a new charging code with the associated rules for embedding market sector Codes into the invoicing process. If directed for implementation, these proposals would be in advance of the associated system solution. This matter has been flagged to DSC Change Management Committee to ensure the impact of this can be minimised.

Workgroup Impact Assessment

The consensus of the Workgroup is that this Workgroup Report contains sufficient information for a recommendation to Panel that this Modification should be issued to consultation.

An additional concern raised by the Transporters at the final Workgroup meeting was that, should the proposal be implemented in accordance with the proposed timescales, LRSP may be paid out in accordance with the

current licence provisions, with the rules setting out the recovery methodology that would be established by this proposal but could not be recovered until the invoicing system was modified and implemented.

Note that the Workgroup Impact Assessment above relates to Modification 0687. **Rough Order of Magnitude (ROM) Assessment**

The CDSP has provided Rough Order of Magnitude Costs for 3 delivery Options, all of which involve adding a new charge type to a specific suite of invoices:

| | |
|--------------------------------|---|
| Core Invoices | Cost expected greater than £120k |
| Scheduled ancillary Invoices | Cost expected to be in the range £20k to £30k |
| Unscheduled Ancillary Invoices | Cost expected to be in the range £20k to £30k |

Note: given the relatively long expected delivery timescales, it is unlikely that option 1 is a feasible solution

All this information, and more, is appended to this report

The exact delivery method will be established by DSC Change management governance.

See the appended presentation provided by Xoserve.



2.2 0687 - Supplier
of Last Resort Cost F

7 Relevant Objectives

| Impact of the Modification on the 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 |

The Modification has two key benefits.

Firstly, it aligns the cost recovery mechanism that is operated in the UNC with the current LRSP process, in which cost apportionment is based on Supply Meter Points and does not include IGT Supply Meter Points, this will ensure cost recovery by DNOs is reflective of the costs incurred and further Relevant Objective a).

Secondly, it will target the costs that occur from an SoLR event to the market sector in which they originated, so furthering Relevant Objective c) by supporting the promotion of competition between Gas Shippers and Gas Suppliers.

8 Implementation

In order to ensure that the new process becomes effective within the UNC to enable the Gas Transporters to take it into account when compiling the Charging Statements for each Distribution Network, this Modification needs to be implemented in late 2019. With that in mind, the following implementation dates are proposed:

- 01 November 2019 if a decision to implement is received by 31 October 2019;
- 01 December 2019 if a decision to implement is received after 31 October 2019 but before 30 November 2019

- If a decision is received after 30 November 2019, then the implementation date will be 1 business day following the decision to implement.

9 Legal Text

Legal Text has been provided by Scotia Gas Networks and is included below. The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Scotia Gas Networks submitted the below amended Legal Text which was considered an approved by the UNC Panel on 17 October 2019.

Scotia Gas Networks submitted Legal Text for Modification 0687V which was considered by the UNC Panel on 14 December 2021.

Text Commentary

None provided.

Text

Legal Text has been published alongside this report at: <https://www.gasgovernance.co.uk/0687>

10 Consultation 0687

Panel invited representations from interested parties on 15 August 2019. 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.

Of the 11 representations received 8 supported implementation, and 3 were not in support.

Representations were received from the following parties:

| Organisation | Response | Relevant Objectives | Key Points |
|--------------|----------|--------------------------|---|
| British Gas | Oppose | a - None c - Negative | <p>Does not support this Modification for the following reasons:</p> <p>Price Cap Implications (negative impact on Relevant Objective c)</p> <p>Currently LRSP costs are allowed for in the domestic retail price caps. However, the existing price cap methodology would not allow the new charges created by Modification 0687 to be recovered by suppliers (since it doesn't cater for a fixed charge). If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply (and could even lead to more SoLR instances).</p> <p>Additional Uncertainty (negative impact on Relevant Objective c)</p> <p>Contrary to the assertion in the draft report there is currently no uncertainty surrounding the current LRSP arrangements and neither is it up to each DNO to decide</p> |

| | | | |
|--------|---------|------------------------------|--|
| | | | <p>how to incorporate LRSP costs into their charging methodologies.</p> <p>Under current arrangements, LRSP costs are included in the GDN allowed revenue through the miscellaneous pass-through term in the GDN licence and flow through to the target revenue described in the charging methodology. LDZ system charges and Customer charges are scaled in the methodology to recover the target revenue. Therefore, there is no uncertainty or discretion in the methodology for how GDNs should recover LRSP costs.</p> <p>Cost reflectivity (no impact on Relevant Objective a)</p> <p>The proposal claims to improve cost reflectivity by aligning the cost recovery mechanism in the UNC with the way Ofgem allocate LRSP costs to GDNs. However, Ofgem has been clear that its approach is to enable broad socialisation of the LRSP and is therefore not based on any concept of cost reflectivity. Therefore Modification 0687 does not improve cost reflectivity.</p> <p>Proportionality and Practicality</p> <p>The proposed change requires potentially significant system changes to be implemented correctly – not just by Xoserve, but also by industry parties. The example included in the draft report, which is representative of the claims made in recent years, shows the new charge would recover 20p-30p for domestic customers in a year and 8p-12p for non-domestic customers in a year.</p> <p>Does not consider the degree of system change required to implement this change correctly is proportionate to the issue. Believes this is an unnecessary and inefficient additional industry cost.</p> <p>Implementation of the proposal would need to allow sufficient time for the necessary system development and implementation, so that invoicing of the new charge was in line with existing industry timescales. The proposal seems to imply that the change should be implemented, and the new charge created, even if the systems are not in place to invoice it – that is clearly inappropriate.</p> <p>Since this new charge is not catered for in the Price Cap, it would lead to unjustified losses for domestic suppliers – potentially leading to further SoLR instances.</p> |
| Cadent | Support | a - positive c - positive | <ul style="list-style-type: none"> • Agrees the Modification introduces more accurate costs targeting the specific market sector from which the costs originate. • Suggests that implementation of the Modification would be aligned to the system implementation date to ensure a specific charge is created within the system for the GDNs to recover the SoLR costs. • The proposed implementation date of 01 December 2019 gives sufficient time for the Gas Distribution Networks (GDNs) to carry out the assurance and governance work for new charge types to be included in their price notification on 31 January 2020. • If implemented, the GDNs would need to amend their internal calculations/pricing models to align costs/price to the respective market sector. • Would like to re-iterate that system development and implementation aligning with the Modification |

| | | | |
|-----------------------|---------|--------------------------------------|--|
| | | | <p>implementation date is crucial as new charge types would need to be available within the system in sufficient time for the commencement of new charges.</p> |
| Gazprom | Support | <p>a - positive c - positive</p> | <ul style="list-style-type: none"> • With the increased use of the SoLR process, the lack of an explicit provision to recover costs from the relevant market means that domestic costs are being assigned to the non-domestic sector and vice versa. This Modification addresses that mis-allocation and more accurately targets costs. • Would like to see the proposal implemented as soon as possible to avoid any future mis-allocation of costs. |
| ICoSS | Support | <p>a - positive c - positive</p> | <ul style="list-style-type: none"> • Agrees with the proposer that the lack of any explicit provision to recover SoLR costs as a distinct charge means that non-domestic SoLR costs are assigned to domestic customers and vice versa. Placing SoLR costs into transportation charges as a general cost also creates unpredictable volatility in the capacity-based charges, which undermines the investment price signals from those charges. • The number of suppliers that have gone into administration in the past 3 years underline the urgent need for this change to be implemented quickly while still ensuring sufficient time to develop and implement the system changes required to support the solution. • Agree that implementation in time to allow transportation charges to explicitly reference the new SoLR charge from 1 April 2020 is both necessary and reasonable. |
| Northern Gas Networks | Support | <p>a - positive c - positive</p> | <ul style="list-style-type: none"> • Supports 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. • Believes that this Modification proposal could be implemented as soon as directed by Authority, with the caveat that it would be of benefit if the implementation date could be before mid-January 2020 to allow for any amendments to the following years charging statement to be carried out before the relevant notice period. Implementation will also need to be dependent on changes to Xoserve's system and creation of a new charge code, allowing for the relevant associated notice period . • Dependent on delivery of the solution there may be an impact on resource, however at this time the delivery solution is still under review and therefore the possible impact is unknown. • Have identified a few minor discrepancies in the provided legal text: <ul style="list-style-type: none"> • TPD B1.7.11, TPD Y11.1 and TPD Y11.2(c) should be corrected to say 'Last Resort Supply Payment' instead of 'last resort payment' to align them with the defined term. • TPD Y11.4 (a) & (b), 'Supply Meter Point' is used in (a) whilst in (b) 'Supply Point' is used. These should be consistent. Both are defined terms with slightly different meanings we would therefore ask that the correct term is clarified by the legal text provider and is used throughout the proposed legal text as appropriate. |

| | | | |
|---------------|---------|------------------------------|--|
| | | | <ul style="list-style-type: none"> • TPD 1.8.1 (c) should have the superfluous bracket removed after ‘Methodology’. • Agrees that the legal text provided should deliver the solution set out in the modification (aside from the above mentioned amendments). |
| npower | Oppose | a - None c - Negative | <ul style="list-style-type: none"> • Supports the general principle that cost recovery should be targeted to the market sector that it originates from; does not believe that the proposed Modification achieves this principle. • Believes the solution is vague and lacking in clarity and the legal text appears to add more obligations than the solution implies. The proposed solution does not ensure that Last Resort Supply Payments (LRSP) charges can be charged fairly to customers. Finally, the proposed charge is misaligned with the way that electricity DNOs charge for SoLR, which brings unnecessary inconsistency between those markets. • One option that parties may wish to consider instead is the possibility of putting all SoLR costs through the electricity DNO recovery process i.e. a total SoLR cost split across all electricity users. <p>Relevant Objective a) No impact</p> <p>Does not agree that this is a positive change as it allows costs to be recovered from shippers which possibly might reflect costs to the Gas Distribution network companies if enough information is provided but it is not managed in a way that suppliers can recover these costs from customers. This is not a positive change.</p> <p>Relevant Objective c) Negative impact</p> <p>Believes this does not support the promotion of competition between gas shipper, we believe it penalises shippers and suppliers, by exposing them to an ex post cost so is a negative change. Shipper portfolios change day to day; the proposal takes no account of this so suppliers will pay more or less than their customer base, reducing competition.</p> |
| ScottishPower | Support | a - positive c - positive | <ul style="list-style-type: none"> • Support the introduction of a new Supplier of Last Resort (SoLR) customer charge which will improve the targeting and recovery of allowed costs that are associated with a SoLR event. • It is not clear what cost would be faced until solution options as part of XRN4992 have been agreed. |
| SGN | Support | a - positive c - positive | <ul style="list-style-type: none"> • Supports this Modification as it introduces a new Supplier of Last Resort (SoLR) Customer Charge which will improve the targeting and recovery of allowed costs associated with a SoLR event. • This Modification proposal could be implemented as soon as directed by the Authority, an early implementation decision would allow SGN to make amendments to our 2020 / 2021 charging statement in advance of the relevant notice period. • Could accommodate an early implementation date, however, consideration would need to be given to the changes needed on the Xoserve’s systems which may result in a delay in implementing this change. |

| | | | |
|---|----------------|--------------------------------------|---|
| <p>Southern Electric Gas Limited</p> | <p>Oppose</p> | <p>a - None c - Negative</p> | <ul style="list-style-type: none"> • The arguments in opposition to the Modification are as follows: <ul style="list-style-type: none"> • The modification goes beyond the vires of the UNC Panel by attempting to change the SoLR levy claim process, which is an Authority scheme enshrined in licence. • Variance from the scheme in the UNC would introduce inconsistency between the UNC and licence. Market sector specific recovery undermines the conditions set out in the supplier and transporter licences for cost recovery on the basis that the costs of market failure should be borne equally across the market, across both fuels. Specifically: Condition 48 of the gas transporter licence and Condition 9.8 of the gas supplier licence. • Opposed to implementation. Further detail of exact Code/ licence change would be needed for full impact assessment, to then gauge the required lead-time to implement. • System and process change would be required – further detail of exact Code/ licence change would be needed for full impact assessment. • The conflicting methodologies would require the Authority to implement licence changes for this Modification to proceed. <p>Therefore, the impact of the Modification on all the Relevant Objectives is negative.</p> |
| <p>Total Gas & Power (Proposer)</p> | <p>Support</p> | <p>a - positive c - positive</p> | <ul style="list-style-type: none"> • This change addresses the following which were originally identified: <ul style="list-style-type: none"> • This proposal removes the cross-subsidy between market sector when Last Resort Supply Payments (LRSP) are recovered, so that domestic customers no longer pay for non-domestic supplier failures and non-domestic customers do not pay to safeguard domestic credit balances. • In addition to removing this cross-subsidy, separating out the LRSP costs will reduce the volatility of system capacity charges. It will also mean that Distribution capacity and commodity charges will be truly reflective of the cost of delivering gas to customers, rather than be distorted by LRSP costs • Advised there are currently a number of LRSP claims that are outstanding that will need to be recovered during the 2020/2021 charging year. If this Modification is not implemented in the UNC by November 2019 then the transportation charging statements for that year cannot take into account this new charge. • It is noted the system changes for this solution do not have to be in place until April 2020 and that there will be a very minor administrative cost to take account of the new charge. |
| <p>Wales & West Utilities</p> | <p>Support</p> | <p>a - positive c - positive</p> | <ul style="list-style-type: none"> • Supports this Modification as it more accurately apportions cost from Supplier of Last Resort events to the appropriate customer groups. We agree that it furthers relevant objectives (a) and (c) and think that there is also an argument for furthering relevant objective (d) as it allocates costs more accurately and therefore |

| | | | |
|--|--|--|---|
| | | | <p>would be expected to further competition between Shippers.</p> <ul style="list-style-type: none"> • Also believes that as this affects DN charges the Modification should have been considered against the charging objectives. • Believes this should be implemented as soon as possible to allow DNs time to accommodate its provisions in their charges for 2020/21. • The implementation costs are unclear at present as this is currently being debated under the DSC change process (XRN 4992). |
|--|--|--|---|

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 Consultation 0687V

Panel invited representations from interested parties on 14 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 14.

Of the 25 representations received 19 supported implementation, 3 offered qualified support and 3 were not in support.

One late representation was received on 04 January 2022 and amended on 05 January 2022, and it is not included in the 25 representations in the table below but is included as the last document in Section 14, alongside all other consultation responses.

| Representations were received from the following parties: | | |
|---|-------------------|----------------------------|
| Organisation | Response | Relevant Objectives |
| British Ceramic Confederation | Support | a) positive c) positive |
| British Gas | Oppose | a) none c) negative |
| Brook Green Innovations Ltd | Support | a) positive c) positive |
| Brook Green Trading Ltd | Support | a) positive c) positive |
| Cadent | Support | a) positive c) positive |
| Corona Energy | Qualified Support | a) positive c) positive |

| | | |
|---|-------------------|--|
| EON | Oppose | a) none c) none |
| ENGIE Gas Shipper Limited | Support | a) positive c) positive |
| Gazprom Energy | Support | a) positive c) positive |
| ICoSS | Support | a) positive c) positive |
| Major Energy User's Council (MEUC) | Support | a) no response provided c) no response provided |
| Mineral Products Association | Support | a) no response provided c) no response provided |
| Northern Gas Networks | Support | a) positive c) positive |
| Octopus Energy | Oppose | a) none c) none |
| Opus Energy Limited | Support | a) positive c) positive |
| Palm Paper Ltd | Support | a) no response provided c) no response provided |
| R & L Holt Ltd & Springhill Nurseries Ltd | Support | a) positive c) positive |
| Salford City Council | Support | a) no response provided c) no response provided |
| ScottishPower | Qualified Support | a) positive c) positive |
| SGN | Qualified Support | a) positive c) positive |
| SSE Energy Supply Limited | Support | a) positive c) positive |
| Tarmac | Support | a) no response provided c) no response provided |
| TotalEnergies Gas & Power | Support | a) positive c) positive |

| | | |
|------------------------|---------|----------------------------|
| Wales & West Utilities | Support | a) positive c) positive |
| West Mercia Energy | Support | a) positive c) positive |

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.

12 Panel Discussions

Original Discussion of Modification 0687 on 19 September 2019

All DN Transporter members said that the Gas Transporters Licence: Standard Condition 48. Last Resort Supply: Payment Claims¹, Paragraph 3 was somewhat general and didn't dictate the method by which the SoLR charges were recovered therefore, this Modification was consistent with Transporter Licence obligations.

Panel Members noted comments by Southern Electric Gas that the Modification goes beyond the vires of the UNC Panel by attempting to change the SoLR levy claim process, which is an Authority scheme enshrined in licence.

Panel Members disagreed with the assertion made and stated that they play an important role in the Modification process and have to give due consideration, regardless of content.

A Panel Member noted the response of Centrica and the interaction with the price cap and how the future setting of the cap should be considered. Panel Members noted that there was discussion but there was not consensus as to whether a new issue was identified as part of the Consultation. All Panel Members agreed that this was not something that the Workgroup would be able to reconsider effectively as it would be outside of the scope of the Uniform Network Code.

Panel Members noted that the price cap matter is determined by Ofgem.

Panel Members noted the discrepancy highlighted in relation to the Legal Text provision. The provider of the Legal Text stated that these were only minor.

Consideration of the Relevant Objectives 19 September 2019

Panel Members considered the Relevant Objectives.

Panel Members noted the responses provided and had nothing further to add to the points raised.

Determinations 19 September 2019

Panel Members voted unanimously to recommend implementation of Modification 0687.

¹ <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

Panel Consideration on 17 October 2019

Panel Members noted the contents of Ofgem's send back letter dated 09 October 2019. Panel Members have reviewed the updated Legal Text and voted unanimously to return the Modification to Ofgem for their consideration.

Panel Consideration of Modification 0687 on 14 December 2021

Panel Members noted the contents of Ofgem's send back letter dated 07 December 2021² along with the accompanying Variation Request 0687. Panel Members reviewed Variation Request 0687 and accompanying Legal Text and voted by majority vote that the variation to Modification 0687 was material and that Modification 0687V should be issued to consultation.

Panel Consideration of Modification 0687V on 12 January 2022

...

13 Recommendations

Panel Recommendation – 19 September 2019

Panel Members unanimously recommended that Modification 0687 should be implemented

Panel Recommendation – 17 October 2019

Panel Members unanimously recommended that Modification 0687 should be implemented.

Panel Recommendation – 14 December 2021

Panel Members by majority (10 votes out of 14) recommended that Modification 0687V should be issued to consultation.

Panel Recommendation – 12 January 2022

...

² <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-12/Ofgem%20Send%20Back%20Letter%200687.pdf>

14 Appended Representations

- Representation – British Ceramic Confederation
 - Representation – British Gas
 - Representation – Brook Green Innovations Ltd
 - Representation – Brook Green Trading Ltd
 - Representation – Cadent
 - Representation – Corona Energy
 - Representation – EON
 - Representation – ENGIE Gas Shipper Limited
 - Representation – Gazprom Energy
 - Representation – ICoSS
 - Representation – Major Energy User’s Council (MEUC)
 - Representation – Mineral Products Association
 - Representation – Northern Gas Networks
 - Representation – Octopus Energy
 - Representation – Opus Energy
 - Representation – Palm Paper Ltd
 - Representation – R & L Holt & Springhill Nurseries Ltd
 - Representation – Salford City Council
 - Representation – ScottishPower
 - Representation – SGN
 - Representation – SSE Energy Supply Limited
 - Representation – Tarmac
 - Representation – TotalEnergies Gas & Power
 - Representation – Wales & West Utilities
 - Representation – West Mercia Energy
- Late Representation (04 January 2022) - Springhill Farms (Persnore Ltd)

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------------------|
| Representative: | Jon Flitney |
| Organisation: | British Ceramic Confederation |
| Date of Representation: | 23 rd December 2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We support the overall principal that Last Resort Supply Payments are allocated according to the market sector from which they arise, determined by whether a site is a domestic or non-domestic meter point. It allows a fairer distribution of recovery of the costs.

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

No comments.

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

No comments.

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

We have not reviewed the legal text.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

No comments.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

No comments.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

No comments.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

No comments.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

No comments.

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 comments.

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

No comments.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 30 December 2021 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) Negative |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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, prudent suppliers will have made pricing calculations on the basis of the current LRSP regime and indicative distribution charges. The late reprioritisation of 0687 and introduction of 0687V 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, the methodology does not serve the policy intention of allocating cost burden to the sector from which it resulted as it will lead to cross-subsidisation through the timing of allocation, the nature of the fixed charge and calculation method (see responses below to Legal Text and Q2).

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

0687V has not been subject to sufficient scrutiny and analysis by stakeholders due to the desire for expedited implementation. 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 are concerned with the explanatory comment above that original views from 2019 will be carried forward should parties not wish to change their original representation. It is clear that these responses may no longer be relevant as the Modification has been amended and the market circumstances have changed significantly. There is a clear example in the British Gas response dated 6 September 2019, where we stated our view that the proposed change was not proportionate to the relatively small scale of SoLR claims, which were quoted as around £5.9m at the time of the original proposal. The significant increase in the quantum of claims (now estimated at around £900m) means we must re-evaluate that view: the scale of claims today is such that it absolutely requires any change to be proportionate and sufficiently robust to avoid further risk and disruption to industry and all customers. Hence we believe this proposal requires much greater scrutiny and we cannot support a workaround, temporary systems change solution for implementation.

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

The current default tariff Price Cap allows for LRSP costs, but does not allow for recovery of a fixed charge element, which this Modification aims to introduce. 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). 0687V cannot be implemented without and until such a change to the Price Cap methodology is made.

Ofgem has indicated orally that it believes that implementation of 0687V is contingent on the Price Cap being amended and is consulting on amendments to Price Cap methodology to incorporate a fixed charge. However the Draft Modification Report and 0687V do not state that implementation of the Modification is contingent on changes to the Price Cap.

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. 12 months would also allow for the Option 1 (comprehensive solution) systems change to be developed and implemented.

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

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

We have not assessed potential system costs as a solution is not clearly defined.

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

No.

At 11.1 the Legal Text provided makes reference to the conditions of 0687V applying to claims received in accordance with Standard Special Condition A48 of the Transporter Licence. This licence condition requires claims to be submitted prior to 31 October for recovery of funds by the transporter in the following regulatory year (i.e. from April 2022). In its letter of 1 December Ofgem made clear that in the current exceptional market circumstances, it would be in the consumers' interest for GDNs to process claims made after 31 October and they will not be subject to enforcement action in this case. Ofgem consented SoLR claims on 17 December 2021.

However, 0687V does not permit GDNs to recover these December 2021 processed claims via their charges until 2023/24. If the intention is for sums to be charged from April 2022, this is counter to the Transporter Licence.

At 11.2 the legal text requires the charge to be based on number of meter points at the time of appointment of the supplier of last resort ("Relevant Date"). This adds unnecessary complexity as suppliers will have been appointed at different points in time. It also means charges will systematically over-recover as the applicable charge will not take into account the natural growth in customer numbers and thus meter points since the appointment of the SoLR through to the end of the relevant charging year, although the charge will be applied to those additional customers. This systematic over-recovery predominantly affects domestic customers, but the over-recovery is to be returned through the "k factor" and so will be spread across all customers (domestic and non-domestic), resulting in a cross subsidy from domestic customers to non-domestic customers.

By way of illustration, if the SoLR charge is based on meter point (customer) numbers that are 1% too low, this would result in domestic customers overpaying by c. £9m (based on c. £900m recovered in 2022/23) and this will be returned to all customers, domestic and non-domestic, through reduced transportation capacity and commodity charges. We note in comparison to this figure the £5.9m of total SoLR claims highlighted in 0678V.

These issues are clearly material and representative of the benefit of further analysis and review of this Modification in the current exceptional situation.

We also note that the revised modification now includes an April 2022 implementation date as part of the revised legal text. Whilst we understand the proposer's desire is to have the change implemented in April 2022, it is neither necessary to include the date to deliver the stated reason for the variation, nor is it appropriate for the legal text to seek to remove the Authority's discretion on implementation timings.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Amended Price Cap methodology and tariff level must be published by Ofgem no later than the fifth working day of February for the charge restriction period commencing 1 April 2022. Therefore, we believe GDN tariffs must be published by 31 January to provide sufficient time to validate the inputs to the April 2022 Price Cap. If final GDN tariffs are not published by the end of the fourth working day of February, they will not be able to be included in the Price Cap for April 2022.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

It is not clear on which basis the assumption of an 80:20 domestic/non-domestic split has been made or is used in the question. 80:20 is not referred to in the DMR of 14 December 2021. It appears in the July 2019 version of the 0687 Modification as the split assumed between credit balances and residual costs, which is no longer a feature of the Modification.

The example in the DMR and 0687V document shows a split of 20m/0.5m meter points in the market (98:2 split). The failed supplier itself in the example is assumed to have a 90:10 split. The Ofgem allocation between sectors is based on 96:4 split in the same example. It is not clear from the example how Ofgem arrives at 96:4 to allocate total LRSP costs from the assumptions indicated. It is also unclear from the methodology and legal text how the split would be derived, and so it is purely at the discretion of Ofgem.

Continuing with the example, which is the only indication of the application of the revised methodology, the total LRSP cost is allocated to GDNs according to their total meter point share of the market (domestic plus non-domestic). Each GDN's pot is then allocated to sectors by the same 96:4 domestic/non-domestic split. The fixed charge per meter point is specific to each GDN's mix of connections however: the customer charge on a GDN level is calculated by dividing the pot of money per sector by the number of meter points per sector. The mix of domestic and non-domestic customers connected to a GDN will vary from the overall 96:4 split which would lead to some users – domestic and non-domestic – being over or under-allocated cost dependent on their location.

In summary, it is not clear the domestic/non-domestic split is derived in a manner which reduces confusion on how costs are allocated, nor how the method would avoid cross-subsidy. The policy intention to allocate costs to the sector which has led to those costs is not served. The allocation of a cost burden of c.£900m should be fully understood and demonstrated prior to implementation. The methodology in 0687V has not been reviewed and tested by a Workgroup and the application of the method in the example provided is inadequate and unclear. 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.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

In the 0687V solution outlined, the inclusion of wholesale costs in the LRSP pot for recovery from both domestic and non-domestic meter points does not meet Ofgem’s policy intention to allocate the costs for recovery from the sector which gave rise to them.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

There is inherent risk in the Xoserve system change option proposed. Firstly, it is a workaround rather than a complete solution. Secondly, it was not part of the Final Modification Report for 0687 nor the Draft Modification Report for 0687V and has not been given adequate assessment. Thirdly, Xoserve itself has flagged in recent days 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*”.

We understand that Xoserve has commenced detailed design work on the change, working “at risk”. This represents potentially inefficient use of time and funding. It also makes it impossible for industry to assess the solution fully.

A short-term workaround solution is not suitable for recovery of such a large sum. Procedurally, implementation should be delayed until a robust enduring solution can be delivered for the systems change, properly assessed by industry, and introduced at a point in time when it can be managed adequately by the provider. A comprehensive solution was proposed as Option 1 in 2019 with an estimated 12 month development and implementation timeline. The use of this comprehensive solution, with an adequate development, testing and implementation timeline to ensure robustness would mitigate much of the risk raised above in response to this Q4. The knowledge that a better solution concept exists, ready to be worked up, makes deployment of a temporary workaround because of a desire to expedite proceedings due to process failings appear yet more problematic.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

The overall timeline and process for this Modification has been very poor. The original Workgroup development work is now outdated by the change in market circumstances since 2019, the number and scale of SoLR events in 2021, and the variation to the Modification proposal itself. The lack of any further review, analysis or development due to the timeline for this Modification presents a major risk that both the solution and the systems implementation are inadequate. With the scale of disruption and increased costs faced by all energy users, this risk should be taken very seriously.

Contingent change to the price cap methodology is running in parallel to the Modification timeline, placing additional pressure on parties who are affected by both, and further increases risk of sub-optimal outcomes.

The condensed timeline for this Modification and Ofgem decision mean that there is uncertainty for both domestic and non-domestic customers costs. Indicative charges have already been published by GDNs on the basis of the current regime and Ofgem's letter of 1 December 2021 on SoLR levy claims. This information will have been used in pricing calculations prior to the reprioritisation of 0687. The uncertainty presented by 0687V means that a prudent supplier must now price in the higher cost outcome for both sectors (i.e. overall customers entering into contracts will be over paying until the final decision, regardless of what that final decision is).

Extreme and unnecessary pressure is being placed on industry to deliver to Ofgem's desired timeline for this change. Implementation timing should not be prioritised over delivering a solution that is fit for purpose, and here this necessitates a better understanding of the impacts on domestic and non-domestic customers.

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 this variation has been rushed through, there are multiple errors and omissions resulting from the DMR 14 Dec 2021 draft consisting largely of the version completed in 2019. We are understanding of the administrative challenges for Joint Office under the unnecessary time pressures that have been placed on them, however in our view errors and omissions in the FMR mean that it is misleading and not fit for purpose. We highlight three clear examples:

At p. 11 the DMR states that "*The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution*". Modification 0687V states that Legal Text is to be provided. In fact, the Legal Text has been issued, but has not been reviewed by a Workgroup. Therefore the DMR misleads in its statement that Workgroup is satisfied with the Legal Text.

The content and examples referencing 2018 SoLR events do not take into account the scale of LRSP claims in 2021. The materiality of the claims must be made clear in order for the solution to be assessed. This could easily have been done by the proposer in the variation request, as calculations were updated with the change to the calculation formula, but it was not. Supplemental information to the context could also have been added. As the DMR and 0687V Modification stand, they mislead on the quantum of LRSP and potential impacts to domestic and non-domestic customers, and industry.

The implementation of the modification by Xoserve is proposed to be based on an option that is not included in the DMR. As highlighted in the questions proposed by Panel for inclusion in this consultation, the systems change is being progressed under a separate DSC process. However, system change implementation is a key element to inform industry response to the standard consultation questions on impact and implementation lead times. The DMR/0687V omit essential information.

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

No further information provided.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|-----------------------------|
| Representative: | Harry Hailwood |
| Organisation: | Brook Green Innovations Ltd |
| Date of Representation: | 21.12.2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We supported the original modification from 2019 and continue to support this revised modification and the idea of aligning the gas market with the electricity market for SoLR costs. We support the concept of SoLR costs being recovered from the market sector that they originate from and we believe that UNC 0687V is a pragmatic solution.

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

It is important that the solution is delivered by the end of January 2022 to give time for the GDNs to take account of it when setting transportation charges.

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

We don't expect any significant costs to come from the changes being implemented.

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

We haven't reviewed the legal text

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

We would not be in favour of changes to the current timescale for DN charges. The current system provides certainty for us to determine transportation charges for customers. Any modification should be implemented in time in order to avoid this disruption.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

With the £900mn worth of LRSP costs being recovered from April 2022 in accordance with Ofgem's initial claims process, modification 0687 is essential in aligning the gas market with the electricity market prior to April 2022. If the modification is not approved in time, hundreds of millions of domestic costs will be passed onto non-domestic suppliers and ultimately non-domestic customers.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Including wholesale costs in 0687V will improve cost targeting and help meet the objectives of this modification.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Although we have not reviewed the full system solution, we don't believe implementation should be postponed to allow time for a full system solution to be delivered. If required there should be a temporary solution implemented, reflecting this modification, whilst the full system solution is being prepared.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|-----------------------------------|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |

| | |
|---|----------------|
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

We can accommodate this timeline and believe industry will too.

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 - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|----------------------------|
| Representative: | Harry Hailwood |
| Organisation: | Brook Green Trading Ltd |
| Date of Representation: | 21.12.2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We supported the original modification from 2019 and continue to support this revised modification and the idea of aligning the gas market with the electricity market for SoLR costs. We support the concept of SoLR costs being recovered from the market sector that they originate from and we believe that UNC 0687V is a pragmatic solution.

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

It is important that the solution is delivered by the end of January 2022 to give time for the GDNs to take account of it when setting transportation charges.

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

We don't expect any significant costs to come from the changes being implemented.

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

We haven't reviewed the legal text

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

We would not be in favour of changes to the current timescale for DN charges. The current system provides certainty for us to determine transportation charges for customers. Any modification should be implemented in time in order to avoid this disruption.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

With the £900mn worth of LRSP costs being recovered from April 2022 in accordance with Ofgem's initial claims process, modification 0687 is essential in aligning the gas market with the electricity market prior to April 2022. If the modification is not approved in time, hundreds of millions of domestic costs will be passed onto non-domestic suppliers and ultimately non-domestic customers.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Including wholesale costs in 0687V will improve cost targeting and help meet the objectives of this modification.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Although we have not reviewed the full system solution, we don't believe implementation should be postponed to allow time for a full system solution to be delivered. If required there should be a temporary solution implemented, reflecting this modification, whilst the full system solution is being prepared.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|-----------------------------------|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |

| | |
|---|----------------|
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

We can accommodate this timeline and believe industry will too.

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

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

30th December 2021
Your Reference: UNC Modification Proposal 0687V

UNC Modification Proposal 0687V - Creation of new charge to recover Last Resort Supply Payments

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?

Support

Relevant Objective:

- a) Positive
- c) Positive

Reason for support/opposition:

The modification introduces more accurate cost targeting for the specific market sector which the costs originated from. Nothing in the varied modification changes our decision or reasons to provide support since we provided our representation in 2019.

Implementation

We would like to see the modification approved for implementation as soon as possible and in any case no later than 19 January 2022. This would give sufficient time for the CDSP and Gas Distribution Networks (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 - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|----------------------------|
| Representative: | Dan Fittock |
| Organisation: | Corona Energy |
| Date of Representation: | 21 December 2021 |
| Support or oppose implementation? | Qualified Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We support the concept of apportioning SoLR cost mutualisation between Domestic and non-Domestic suppliers and aligning the approach for gas market with that of the electricity market.

We further support the scope of the proposal to cover all LRSP costs rather than just Domestic customer balances as this is a true reflection of the cost of SoLR events to the industry. We offer Qualified Support as we would like to see these costs split by market share for both Domestic and non-Domestic suppliers subject to cost mutualisation in this area.

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

Due to the electricity equivalent of this Modification being implemented over 2 years ago, we would welcome an ASAP implementation date.

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?*

We have not reviewed the legal text.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Disruption in the ability for Suppliers to accurately forecast costs would have a detrimental impact on non-Domestic contracts if the mandatory timeframes are not met. Any mid-year change to transportation costs represent increased risk to Shippers and Suppliers.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Under current arrangements the non-Domestic market is underwriting the Domestic market where the vast majority of SoLR events originate. This unequitable approach to one market underpinning the failure of competition in another is unacceptable. Rather than the split indicated in this Modification, we would welcome a volumetric approach where the £900m is split between Domestic and non-Domestic suppliers by sector, with cost apportioned to those sectors based on market share.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

We support the ASAP implementation of this modification to ensure that the cross-subsidy of Domestic supplier failures is removed, and believe that this would not be achievable by the required deadline if the scope of this Modification is expanded.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

N/A

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|-----------------------------------|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |

| | |
|---|----------------|
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

We believe this timescale is reasonable based on the fact that the removal of cross-subsidy between Domestic and non-Domestic markets is a priority.

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 are supportive of any change that apportions SoIR costs between the Domestic & non-Domestic market. We offer Qualified Support for this modification and have also raised alternative 0797.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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: | 22 December 2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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 it is crucial to have a decision on cost allocation prior to the notification of final price cap allowances by February 2022 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.

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

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Short notice changes to DN charges are unwelcome at any time and particularly so right now given the strain of increasing costs on consumer bills at a time when revenues are uncertain due to the uncertainties presented to businesses by the ongoing COVID pandemic. Short term changes should be avoided, and a smoothed cost recovery process over several years is preferred to the application of charges in one single formula year as currently proposed.

Alternatively, a smoothed cost recovery process would benefit both domestic consumers and businesses; network companies can play their part to help facilitate this in conjunction with regulators and officials. Recovering excess costs over the duration of a full price control period is achievable and could be treated similarly to the marginal costs allowed for network investments to allow for a more manageable cost recovery. Price controls are devised specifically to solve such cash-flow issues and could be applied similarly here to facilitate a resolution to the LRSP issue.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

The method proposed allows for more accurate cost attribution and avoids the current anomalous cross subsidy between market sectors. The method also provides the necessary clarity to allow suppliers to account for costs and to adjust cost components in their pricing models. Additionally, the clarity provided will allow Ofgem to accurately adjust the price cap allowances in the domestic market segment.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Excess wholesale costs were not foreseen at the time when the original modification was drafted and had never been a component of any LRSP claims submitted up to that date. The excess cost allowances are both new and significant and the clarity provided in respect of the varied

modification helps market participants to estimate costs and adjust pricing models more accurately.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

No, but the implementation of the charging is less important than the clarity of cost attribution. Any charges can be accrued for should there be a delay to the implementation of the new charge.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

The timeline is driven by both domestic price cap and DN charge formal notification protocols if excess charges are to be recovered in the next charging year. An early decision allows for the necessary certainty to all market participants.

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

NA

Representation - Draft Modification Report UNC 0687V Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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: | 22/12/2021 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) None |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

Whilst we are sympathetic to the intention of this modification, we are concerned about the process being followed for this modification and the implementation timelines. The circumstances that industry is currently facing are very different to those prevailing at the time the original modification was raised and we believe that the correct governance should be followed, which would be to return this modification to work group for further discussion and analysis. The current implementation timelines leave little time for shippers to make system changes or for adequate testing to ensure that the methodology is being applied correctly.

If Ofgem was to approve this modification, we are unsure, given that a) there already exists a mechanism for LRSP recovery and b) the significant amount of industry change already planned for Q1 2022 what the benefit to industry of an interim solution is; rather we are of the view that this will place additional risk to the delivery of changes already planned. We would assert that it would be less risky to implement only the enduring solution.

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

We do not believe this should be implemented on 1 April 2022 via an interim system solution. The proper governance process should be followed which would allow for a robust enduring solution to be implemented in April 2023.

We would also seek clarification that there is no retrospective application to this modification if the implementation is at a date later than 1 April 2022

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 access.

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?*

We do not agree that the legal text delivers the intent of the Solution; costs are still not accurately being assigned to the correct market sector.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

No comment

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

When Ofgem splits the LRSP between the GDNs, it is based on their proportion of GB's Supply Meter Points connected to their networks, regardless of market sector. It is only the subsequent cost per meter point calculation which is based on the share of domestic and non domestic meter points in that region. We do not consider that this methodology is fair; LRSP is independent of region and many recent LRSP claims have been predominantly domestic. We also do not believe it is fair that domestic customers in different regions will be charged differently based on the mix of meters in their region. In electricity each DNO charges the same.

We propose that it would be fairer if the costs are initially split based on the ratio of domestic meters in each region and separately the ratio of non-domestic meters in each region; then calculate the cost per meter from there. We provide an alternative worked example below:

Alternative worked example

- Assume 30m domestic meter points, 1m non-domestic meter points in market
- Ofgem splits the LRSP between the GDNs as follows, based on the proportion of domestic and non-domestic GB Supply Meter Points connected to their networks.

- Ofgem also allocates £10m to domestic and £0.2m to non-domestic

| Network | % of GB Dom meters | % of GB Non-Dom meters | Dom Meters | Non-Dom Meters | Total meters | Dom Share of LRSP | Non-Dom Share of LRSP | Dom £/meter | Non-Dom £/meter |
|---------|--------------------|------------------------|------------|----------------|--------------|-------------------|-----------------------|-------------|-----------------|
| a | 8% | 15% | 2,400,000 | 150,000 | 2,550,000 | £800,000 | £30,000 | 0.33 | 0.2 |
| b | 15% | 15% | 4,500,000 | 150,000 | 4,650,000 | £1,500,000 | £30,000 | 0.33 | 0.2 |
| c | 12% | 12% | 3,600,000 | 120,000 | 3,720,000 | £1,200,000 | £24,000 | 0.33 | 0.2 |
| d | 15% | 10% | 4,500,000 | 100,000 | 4,600,000 | £1,500,000 | £20,000 | 0.33 | 0.2 |
| e | 10% | 5% | 3,000,000 | 50,000 | 3,050,000 | £1,000,000 | £10,000 | 0.33 | 0.2 |
| f | 5% | 15% | 1,500,000 | 150,000 | 1,650,000 | £500,000 | £30,000 | 0.33 | 0.2 |
| g | 10% | 10% | 3,000,000 | 100,000 | 3,100,000 | £1,000,000 | £20,000 | 0.33 | 0.2 |
| h | 15% | 10% | 4,500,000 | 100,000 | 4,600,000 | £1,500,000 | £20,000 | 0.33 | 0.2 |
| i | 10% | 8% | 3,000,000 | 80,000 | 3,080,000 | £1,000,000 | £16,000 | 0.33 | 0.2 |
| Total | 100% | 100% | 30,000,000 | 1,000,000 | 31,000,000 | £10,000,000 | £200,000 | | |

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

No comment

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

As aforementioned, we do not believe an interim solution provides enough benefit to industry to warrant the risk adding more changes into an already congested change landscape and the additional cost to shippers

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|--|----------|
| Consultation close out 5pm | 30/12/21 |
| FMR to Panel for reading | 05/1/22 |
| Panel consideration | 12/1/22 |
| FMR to Ofgem | 12/1/22 |
| Ofgem decision expected | 20/1/22 |
| Deadline for publication of DN charges | 31/1/22 |

As we have already mentioned this timeline does not give sufficient time for adequate testing of the solution, if any of these dates were to be delayed shippers would be under great pressure to deliver the required system changes.

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.*

We would like to understand a bit more about transitional arrangements. For LRSP claims already in flight, would these continue under the current methodology with only new claims being subject to 0687V? We are also interested in what governance could be put in place to prevent shippers being charged under both arrangements for the same claim.

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

No comment.

Representation Draft Modification Report

Modification 0687V - Creation of new charge to recover Last Resort Supply Payments

1. **Consultation close out date:** 30th December 2021
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:** 29th December 2021
6. **Do you support or oppose Implementation:**
We **Support** implementation of this 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 still **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

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 has been delayed for in excess of 2 years and needs to be **implemented as soon as reasonably practicable**

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.

Yes

We note that due to the delay in making a decision, the legal text has fallen out of line with the latest version of the Code. It may be appropriate to introduce a regular review of the legal text, overseen by the Panel, for modifications that have been sitting with Ofgem for a protracted length of time and for the text to be updated if it falls out of line with the current drafting of the Code due to ongoing changes. This will ensure the legal text associated with modifications remains current and implementable avoiding unnecessary delay should the modification be approved for implementation.

We note that due to the delay in making a decision, minor changes to the Modification were needed to reflect the current market arrangements and to ensure the modification remained reflective of the current market conditions. Again, we would suggest that a regular review of modifications sitting with Ofgem for a protracted length of time, is overseen by the Panel and Proposer. This will ensure the Modification remains current and any minor changes are incorporated. It will ensure the modification solution remains up to date and implementable avoiding unnecessary delay should the modification be approved for implementation.

We would expect both of the above to be exceptional circumstances and for long delays to be avoided were at all possible

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

If the mandatory timelines for changes to the DN tariffs are not met, then non domestic consumers will continue to cross subsidise domestic consumers

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

The modification proposes the fair attribution of costs to the relevant market sector in line with Ofgem's stated aims.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

The modification proposes the fair attribution of costs including wholesale costs to the relevant market sector in line with Ofgem's stated aims.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/> (Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available –

Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We expect the technical delivery to support the implementation of the modification and note it has been in scope of the Change Management Committee since 2019. We note that the new approach with Ofgem providing the values by Market Sector will reduce the complexity of any solution.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| Consultation close out 5pm | 30/12/21 |
| FMR to Panel for reading | 05/1/22 |
| Panel consideration | 12/1/22 |
| FMR to Ofgem | 12/1/22 |
| Ofgem decision expected | 20/1/22 |
| Deadline for publication of DN charges | 31/1/22 |

Other than minor changes to bring the modification up to date e.g. legal text updates and clarification regarding wholesale costs no changes have been made that materially change the intent of the proposal that the value of claims are fairly apportioned to the correct market sector. We also note that in Ofgem's letter of the 7th December 2021 it was noted that Ofgem expect the UNC to expedite progression of this modification as soon as possible and in line with gas governance processes. Therefore, we have no concerns in relation to the proposed timeline as it allows the DN's to publish revised charges ahead of 1st April 2022.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 20 th December 2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

Further to our consultation response to UNC Modification 0687V from September 2019, we continue to support the concept of aligning the gas market with the electricity market with regard to the treatment of SoLR costs. 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.

UNC Modification 0687, as originally drafted, was a pragmatic solution to ensure a timely delivery of a solution to apportion the majority of costs arising from LRSP claims to the correct market sector. We agree that extending the scope of the proposal to cover all LRSP costs, not just those from refunding domestic credit balances, will further relevant objective a) and c) to a greater degree than the original proposal, as it improves cost targeting to a greater degree and provides a more robust solution.

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.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

The current notification process for changing DN tariffs is well-established and provides certainty to suppliers when determining transportation costs for their customers. Compressing the existing short notice period and/or undertaking mid-year transportation charge adjustments create disruption and uncertainty for customers, during a period where stabilising costs for customer is vital. As a result, we would be concerned if the current timescales for setting DN charges was not adhered to, and so this modification must be approved in a timely fashion to avoid this.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

GDNs are currently proposing to recover approximately £900m to cover LRSP costs arising from the unprecedented number of Domestic Supplier business collapses during the 2nd half of 2021. These costs are expected to be approved by Ofgem under a “fast track” process in time for recovery in gas transportation charges from 1 April 2022.

UNC Modification 0687 was raised to ensure that the gas market aligned itself with the equitable process already followed in the electricity market, namely non-domestic customers do not subsidise failures in the domestic sector, and vice versa. If this modification is not approved then non-domestic customers will be charged hundreds of millions of pounds of domestic costs. This will place significant pressure on non-domestic customers already suffering the effect of high gas prices and the continuing pandemic, and will put some out of business.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

To remove any cross subsidy between market sectors, wholesale costs should be included when determining how LRSP costs are recovered from domestic or non-domestic customers. Expanding UNC Modification 0687 to include wholesale costs into the new SoLR customer charge will improve cost targeting and so further the relevant objectives a) and c).

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We have not reviewed the technical solution in detail, though we do not believe that the modification should be delayed simply to allow a full system solution to be delivered. An interim process for providing ad-hoc invoices to reflect the modification should be utilised if a full solution is not ready for 1 April 2022.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|--|----------|
| Consultation close out 5pm | 30/12/21 |
| FMR to Panel for reading | 05/1/22 |
| Panel consideration | 12/1/22 |
| FMR to Ofgem | 12/1/22 |
| Ofgem decision expected | 20/1/22 |
| Deadline for publication of DN charges | 31/1/22 |

The timescale for delivery is reasonable in light of the need to prevent a significant cross-subsidy between the domestic and non-domestic markets from pending LRSP claims. We believe that suppliers can accommodate such a timescale in their customer price setting.

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

NA

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|---|
| Representative: | EDDIE PROFFITT |
| Organisation: | Major Energy Users Council (MEUC) |
| Date of Representation: | |
| Support or oppose implementation? | Support <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> |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

The proposed modification will prevent cross subsidy of consumer groups in the market

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

Sufficient to prevent 2022/23 GDN charges that spread SOLR costs across the whole consumer base.

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

From numbers released the impact on non-domestic customers would be £175.40 million (£877million x 20%) if the modification is not approved before the end of January

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

Not qualified to comment

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

If the published indicative GDN charges are implemented there would be a cross subsidy of £175.40 million from non-domestic to domestic.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

The inclusion of the difference between the wholesale purchase price and the capped selling price has clearly led to the extraordinary £877 million being recovered, whether this is the best tool for dealing with it is questionable.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

no

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

It is acceptable if it leads to the approval of the modification, allocating the costs of SOLR to the correct sector of the market.

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

If this modification is approved an average domestic consumer will face an increase in their gas bill of £35.08 ($\text{£}877,000,000 / 300,000,000,000 \text{ kWh} \times 12,000 \text{ kWh}$) for 2022/23 with an equivalent drop for 2023/24.

If Ofgem (with Treasury support) spread the recovery of the £877million over the remaining 4 years of the GDN price control it would lead to a more acceptable £9/year increase for a domestic consumer.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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: | 20 th December 2021 |
| 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> |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

The Mineral Products Association supports the modification and understands it will mean that the appropriate allocation of cost between the domestic and non-domestic sector.

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

Implementation needs to be as soon as possible to prevent costs created by the domestic sector being assigned to the non-domestic sector.

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

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

No Comment

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

No Comment

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

No Comment

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

No Comment

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

No Comment

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

No Comment

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

No Comment

Joint Office

Enquiries@gasgovernance.co.uk

30th December 2021

Dear Sir or Madam,

Re: 0687V Creation of new charge to recover Last Resort Supply Payments

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.

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 believe this furthers 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. In order to be able to apply these charges from April 2022, an interim solution will be used until the enduring system solution can be implemented.

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.

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**

Legal Text:

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

Whilst we are satisfied that the legal text will deliver the intent of the solution, we have a concern as to assumptions made: Further comments under 'additional information'

Modification Panel Questions:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Should the timeline as stated under 'Implementation' above, not be achieved, by this, or any other related modification proposal, then the charging will remain as current, with the cost of each SoLR being smeared across both domestic and non-domestic consumers, regardless of sector it originated from.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

and

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

We believe that this modification, which includes all claimed cost associated with the SoLR, not just credit balances, will result in the majority, if not all, of this estimated levy being borne by the domestic consumer base. Whilst this will result in an increased cost to this sector (in relation to the original 0687 proposal) we feel that this is a more correctly targeted charge in relation to the customer base of the current supplier failures.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We believe that this is being managed in accordance with the correct process, and that the technical solutions (interim and enduring) proposed will be able to deliver the modification solution.

*Q5: What is the impact on industry of the timeline of this Modification?
Consultation close out 5pm 30/12/21*

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**

| | |
|---|----------------|
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

The timelines for this varied proposal have resulted in the solution having less discussion and analysis by industry than would normally have been the preferred case, however we feel that CDSP and networks have completed a thorough analysis to ensure that this can be delivered, correctly, within the timeframe. As a result of the condensed timeframe an interim solution will be used until the final enduring solution can be implemented into central systems.

Whilst this timeline is less than ideal, and it would have been preferred to have received a decision in relation to 0687 earlier, to allow industry more time to consider and develop 0687V, we agree that it is appropriate given the current unprecedented volume of SoLR claims that will be being socialised across the energy market.

We would like to stress that delivery of this modification for the coming financial year will be dependent on Ofgem publishing their decision no later than 20/01/2022.

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

This modification proposal relies on Ofgem advising the distribution networks of the split between domestic and non-domestic when instructing the recovery of the SoLR charges which is an obligation that does not already exist. The UNC cannot place an obligation onto The Authority, therefore, whilst this proposal is appropriate for the coming financial year, we believe a further modification proposal will need to be raised to confirm the process should Ofgem choose not to advise of this split.

Whilst we believe it is appropriate for the costs to be borne by the market sector that incurs them, this proposal splits the costs evenly between all meter points within the sector, without taking into account actual usage. This appears to increase the annual bills of fuel poor customers and other vulnerable customers, by the same amount as larger homes and more, seemingly, financially secure customers.

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

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

t 0113 397 5300
w northerngasnetworks.co.uk

**we are
the network**

Representation - Draft Modification Report UNC 0687V Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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: | 30/12/2021 |
| Support or oppose implementation? | Oppose |
| Relevant Charging Methodology Objective: | a) None c) None |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

Whilst we are supportive of the intention to provide transparency to Last Resort Supply Payments we are concerned that the pace of this code modification does not allow time for unintended consequences to be fully debated and understood.

In concept this modification will allow suppliers to forecast charges more effectively, which is seemingly beneficial to the LRSP process. However, it opens the door to further debate around how the charges are applied fairly.

Further, 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.

Of biggest concern is that through 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?*

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

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

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

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.*

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

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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: | 20/12/21 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We support this proposal and believe it will lead to a more transparent and fairer allocation of charges between domestic and non-domestic consumers. Currently, the lack of detail regarding how costs are allocated to customers can potentially create confusion on how these costs are apportioned and means that customers may end up cross-subsidising SoLR events from other market sectors.

We believe the modification is long overdue and 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 an SOLR that should be attributed to customers on the network. 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. By addressing this distortion, the proposal should improve competition.

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 implementation 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?*

Yes.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

If changes to DN tariffs are not clarified, industry parties will be unable to appropriately reflect charges within their contracts.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

No comment.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

We agree that the inclusion of wholesale costs should be limited to domestic customers only because the prices that domestic suppliers can charge are restricted by the domestic retail price cap.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We support proposal XRN4992, because SoLR LRSP charges would be recovered by DNOs on a Supply Meter Point basis calculated to recover costs originating from each market sector, based on the market code sector within their portfolio.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

As long as the timeline accommodates the proposed implementation date of 1 April 2022 as referenced within Ofgem's 'send back' letter we have no additional comment.

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

No comment.

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

No comment.



Palm Paper

20/12/2021

Palm Paper Limited
Poplar Avenue
Saddlebow Industrial Estate
King's Lynn
Norfolk
PE34 3AL
Tel. 01553 782222
Fax 01553 782223
www.palmpaper.co.uk

Dear Gas Governance

In response to the consultation 'Draft Modification Report UNC 0687V, Creation of new charge to recover Last Resort Supply Payments', we Palm Paper Ltd support the implementation of the modification.

Yours faithfully

Zach Stanford

Technical Assistant to the Managing Director

Palm Paper Limited
Poplar Avenue
Saddlebow Industrial Estate
King's Lynn
Norfolk
PE34 3AL

Office Phone: +44 1553 782-255
Office Fax: +44 1553 782-223
Mobile Number: +44 7545 645-296
Email: zach.stanford@palmpaper.co.uk

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 21/12/2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

With gas prices making winter production never mind long season tomatoes unsustainable, there is a real fear of making our enterprise unprofitable and hence ceasing causing 50 staff to lose their jobs. Also commercial operations are already paying full prices for gas unlike domestic customers - so why should the commercial sector pay for domestic customers' suppliers failures?

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

Implementation ASAP to prevent costs from the domestic sector being assigned to the non-domestic sector.

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

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Insert Text Here

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Insert Text Here

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Insert Text Here

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Insert Text Here

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

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

UNC Representation received by Email

0687V - Creation of new charge to recover Last Resort Supply Payments

Date: 17 December 2021

Organisation: Salford City Council

Abstract: Please accept this email as our response in support of Modification 0687V, as laid out in the consultation issued on 14 December 2021.

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|---|--------------------------------|
| Representative: | Claire Louise Roberts |
| Organisation: | ScottishPower |
| Date of Representation: | 30 th December 2021 |
| Support or oppose implementation? | Qualified Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

ScottishPower agrees in principle what this modification seeks to achieve, we are fully supportive on the future SoLR charges being allocated across **Domestic** and **Non-Domestic** segments. There were 28 failed suppliers during 2021 and almost all of them had very few Non-domestic customers.

The current SoLR process does not allow for recovery for Non-Domestic of credit balances so this would be very unfair to apply recovery against this segment.

We are again fully supportive of allocating the same charge for each area rather than at individual DNO area, as many of the costs that are being recovered relate to credit balances and other costs which have no relevance to their area (**We agree with example provided by Eon in their consultation response**).

However, we would like to provide qualified support for implementation of this modification on the grounds of the additional burden on Domestic consumers and increased cash-flow pressure on Domestic suppliers (recovery in the same period that it's being billed to customers has a negative cash-flow impact for credit customers). If Ofgem approves implementation of this modification for 1st April 2022 the impacts of increased LRSP recovery from Domestic segment will aggravate the effects of expected price rises on the consumer. The original modification was raised in 2019 during which time SoLR's were less frequent and the current market conditions were very different.

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

It is in our opinion this should be split into two parts, we would recommend implementation for the 2021 SoLR's and then returned to workgroup for further analysis and discussions.

The original modification was raised in 2019 during which time SoLR's were less frequent and the current market conditions were very different. We believe a thorough impact assessment should be completed in line with the current Energy Market conditions, to ensure Industry parties are fully aware of the impacts on the domestic consumer and the enduring solution is robust and fit for purpose.

We would also seek clarification that there is no retrospective application to this modification if the implementation is at a date later than 1 April 2022 **Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

ScottishPower has not had the opportunity to fully impact assess both solution options, however it is anticipated there will be a cost associated to implement both solutions whether it be resources and/or system changes.

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

We have no comments on the legal text at this time but if we come up with any, we will raise them immediately.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

No comment

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

It is likely there is a further £2bn of SoLR costs coming down the line, so ScottishPower are fully supportive of a new clear line item reflecting this charge, enabling clear review and reconciliation of the charge.

In line with comments provided previously by British Gas and Npower it is essential that the **Price Cap Methodology** and **supporting Annex** is adjusted to allow for this separate charge item.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

No comment

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

There is so much change going in the Industry right now and industry parties are already facing additional pressure of the current energy market conditions and adding more changes to an already congested landscape will only add to this. It's in our opinion this is returned to workgroup for further analysis.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|--|----------|
| Consultation close out 5pm | 30/12/21 |
| FMR to Panel for reading | 05/1/22 |
| Panel consideration | 12/1/22 |
| FMR to Ofgem | 12/1/22 |
| Ofgem decision expected | 20/1/22 |
| Deadline for publication of DN charges | 31/1/22 |

The timeline of this modification is very tight, it's been issued at short notice and over a Christmas period when key stakeholders are on leave. We appreciate the urgency of the modification however, it does not allow sufficient time to review all documentation fully and impact assess the potential burden on Domestic consumers and calculate the amount of increased cash flow needed.

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.*

We would like to note that whilst the consultation on page 4 refers to the majority of such claims being in relation to credit balances, based on current market conditions and the multiple failed suppliers this statement is outdated, *the majority of the forthcoming SoLR recovery costs will relate to wholesale costs, with credit balances following thereafter.*

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

We would like clarification on the worked example on page 6. We thought the principle of allocating the LRSP was using the failed supplier meter points in the worked example, would this not suggest that the allocation to Domestic should have been £4.5m and Non-

Domestic £0.5m based on the 9k Domestic and 1k Non-Domestic meter points of Suffolk Energy?

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 30 December 2022 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We support UNC 0687V 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. We also support the variation to the modification that will include the allocation of gas wholesale purchasing costs to the correct market sector.

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.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

We believe that the mandatory timeframes for changes to DN tariffs should be met in order to provide certainty for pricing purposes. If the timescales are not met, then it will create uncertainty for both suppliers and customers and could lead to higher risk premiums being applied to pricing tariffs by suppliers.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

We agree with the methodology proposed in 0687V as it will ensure that the SoLR levy costs are apportioned to the sector from which they originate. If this proposed methodology is not implemented, then it will result in hundreds of millions of pounds of SoLR costs being allocated to the non-domestic sector, even though that they have originated from within the domestic sector. These increased costs would add even more pressure to a sector which has been hit very hard by the Covid-19 pandemic.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

We agree that wholesale costs should be included in the varied Modification 0687V as the inclusion of these costs will ensure that SoLR levy costs are allocated to the correct market sector from which they originate.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We agree with the interim solution, as voted to be progressed in this month's DSC Change Committee meeting, as it will ensure that the solution is delivered for 1st April 2022 implementation, which would allow the methodology for cost recovery as proposed in Modification 0687V to be implemented for all SoLR levy costs, including those to be recovered under the faster SoLR levy process.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

We believe that the timeline of this modification is reasonable in order for it to be finalised, and that it can be accommodated by suppliers in their price setting processes.

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

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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 Network Ltd |
| Date of Representation: | 23 rd December 2021 |
| Support or oppose implementation? | Qualified Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

SGN would like to offer Qualified Support to this modification. In principle we support the intention of the modification as it will provide a more transparent allocation of charges between the domestic and non-domestic consumers however this process could go further by applying the charges proportionately to the annual quantity of the Supply Meter Point as opposed to the flat rate that is being proposed.

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.

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?*

SGN believes that this modification would benefit from the addition of a Transitional Rule being added to the legal text to align with modification 0797 “Last Resort Supply Payments Volumetric Charges”. The inclusion of this Transitional Rule would make it clear that Gas Distribution Networks are expected to recover valid Last Resort Supplier Payments up to 31 December 2021 in accordance with the Ofgem letter of 1st December <https://www.ofgem.gov.uk/publications/decision-letter-supplier-last-resort-levy-claims>.

The additional Transitional legal text that has been applied to modification 0797 is as follows:

TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

28 SoLR Customer Charges 2022/23

28.1 For the purposes of TPD Section Y paragraph 11 the SoLR Customer Charges payable by a Shipper User to a DN Operator in relation to the year commencing 1 April 2022 shall take into account valid claims received by the DN Operator by 31 December 2021 (and not previously recovered by the DN Operator from Shipper Users).

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

These timelines are important in terms of ensuring the rapid payment of SOLR claims for suppliers, and their associated recovery from consumers in a way that does not pass that exposure onto network companies.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

We support the methodology proposed in 0687V however this would need to allow GDN's to include valid claims up to 31 December 2021 in accordance with the Ofgem letter of 1st December. This has been highlighted in the solution for modification 0797 “Last Resort Supply Payments Volumetric Charges” and needs to be replicated in this modification for consistency.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

No comment offered.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We do not have any further comments to provide regarding the technical delivery of the code solution that is being progress by the CDSP.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

Given the importance of the SOLR process we believe that the timescales are necessary to deliver the solution.

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

None identified.

From: Cowling, Tim <tim.cowling@tarmac.com>

Sent: 23 December 2021 14:35

To: Joint Office <enquiries@gasgovernance.co.uk>

Subject: RE: 0687V - Creation of new charge to recover Last Resort Supply Payments - Joint Office of Gas Transporters

Dear Sir / Madam,

Please accept this email as Tarmac's response in support of Modification 0687V, as laid out in the consultation issued on 14 December 2021

Regards,

Tim Cowling
Regulatory Affairs Manager

M +44 789 479 0265
tim.cowling@tarmac.com

Bessemer Street, Gorton, Manchester, Greater Manchester, M11 2NE, United Kingdom
www.tarmac.com



*Tarmac is the UK's leading sustainable
building materials and construction solutions company*

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 23/12/2 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

We support this UNC Modification 687V as it will support the clear Ofgem intention of putting the Gas SoLR costs onto the market sector which caused them. Bringing Gas into line with what has already been done in Electricity. The enhancements made to the original Modification 687 are more clarification to ensure full compliance with the intent rather than fundamental changes.

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

It is important that this implemented as soon as possible to best reflect as much cost as possible.

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

Minimal, and anything would be a one off set up cost

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

No Comment

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

If the mandatory timeframes for DN charges are not met the cross subsidy will be considerable and could be so great as to put some B2B customers out of business. This for a cost not associated to their market sector and in a market where they bear their own risk, to pick up coverage for domestic protected costs would be highly concerning.

We would like to avoid situations for a mid-period changes to rates as this causes confusion and upset for end customers but do feel it needs to be in as soon as possible. Therefore, approval in a timely manner is best for customers.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

As mentioned, modification 687V will ensure alignment on costs and what sector recovery is from, as well as bringing uniformity between Gas and Power on this cost recovery. We are glad that Ofgem have agreed to support a clear and justifiable split in costs for Domestic and non Domestic. This makes the approach allocating the right cost to the right sector recovery more robust.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

The inclusion on explicitly stating the wholesales costs in the modification 687V compared to modification 687, just further draws out something that would have always been there, the varied modification does not change the elements allowed within a SoLR claim. There are also only a few instances where the failed supplier is both Domestic and non-Domestic and where this would have caused a discrepancy to where these costs would have been allocated under 687 which was recommended by Panel in 2019. We see the inclusion of wholesales costs as clarification rather than causing significant change to the cost distribution and will not comment on if they should be within the claims.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

We have not reviewed this in depth, but support efforts needed by the CDSP to manage delivery timeframes including the potential need to an interim solution to avoid this holding up delivery of the Modification.

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

The timescales are tight but appreciate Ofgems clarity they would like this expedited and that it can be done in time for final rate setting in line with their minded too statement. This can be accommodated within our timeframes for Customer pricing.

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

N/A

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **30th December 2021**

To: enquiries@gasgovernance.co.uk

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

| | |
|--|--------------------------------|
| Representative: | Smitha Coughlan |
| Organisation: | Wales & West Utilities |
| Date of Representation: | 30 th December 2021 |
| Support or oppose implementation? | Support |
| Relevant Objective: | a) Positive c) Positive |

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. We agree that removing the domestic credit balance charge from non-domestic meter points furthers relevant objectives (a) and (c) as does the inclusion of wholesale costs in relation to SoLR claims; and think that there is also an argument for furthering relevant objective (d) as it allocates costs more accurately and therefore would be expected to further competition between Shippers. Notwithstanding these comments, we think that as this affects DN charges the modification should have been considered against the charging objectives.

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

The suggested latest Ofgem decision date of 20th January 2022 causes a degree of 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 urgent modification 0797 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?*

We have not identified any cost impact which is different to that in relation to MOD 687 namely that to implement for April 2022 a temporary solution will be required with an enduring solution to follow.

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

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

Further to comments above, WWU think it is reasonable to include wholesale costs in the SoLR calculation as this also improves the accuracy of apportionment of SoLR event costs, across the relevant market sector.

WWU note that changes to the worked example and calculation method seems more appropriate given the use of GDN meter point data to determine the domestic v non domestic apportionment, as opposed to using the failed suppliers meter point data.

We again draw attention to the restricted timescales that arise from a 20th January decision by Ofgem. 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 - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: **5pm on 30 December 2021**

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: | 23 rd December 2021 |
| Support or oppose implementation? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

With wholesale gas prices already at record highs, the impact of this potential additional cost will have a significant impact on the budgets of our customers many of which are schools where budget pressures are already severe.

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

Implement as soon as possible to ensure that costs attributable to the domestic sector do not get assigned to the non-domestic market.

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

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Insert Text Here

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Insert Text Here

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Insert Text Here

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Insert Text Here

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

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 - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

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? | Support |
| Relevant Charging Methodology Objective: | a) Positive c) Positive |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

As a large commercial gas consumer, I support the implementation of the modification. The payments should be allocated to the market from which they were created.

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

The lead time should be as soon as possible to prevent any further energy cost increases.

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.

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

N/A

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

N/A

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

N/A

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

N/A

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

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.*

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 - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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>b) None</p> |

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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

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?

N/A

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

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Insert Text Here

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

Insert Text Here

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Insert Text Here

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

Insert Text Here

Q5: What is the impact on industry of the timeline of this Modification?

| | |
|---|-----------------|
| <i>Consultation close out 5pm</i> | <i>30/12/21</i> |
| <i>FMR to Panel for reading</i> | <i>05/1/22</i> |
| <i>Panel consideration</i> | <i>12/1/22</i> |
| <i>FMR to Ofgem</i> | <i>12/1/22</i> |
| <i>Ofgem decision expected</i> | <i>20/1/22</i> |
| <i>Deadline for publication of DN charges</i> | <i>31/1/22</i> |

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.*

N/A

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

N/A