

UNC Variation Request

0687 – Creation of new charge to recover Last Resort Supply Payments

Date: 09 December 2021

The Proposer, Total Gas & Power, requests a variation to this Modification, pursuant to UNC Modification Rules Section 6.5.1(c) of the Uniform Network Code (UNC).

Reason for Variation

To enable a review of the existing legal text for the Modification Proposal in order to ensure better alignment with the current Uniform Network Code legal text and to enhance the Modification to take into account the Wholesale Cost of SoLR levy.

Nature of Variation

The amendments to the Modification Proposal sought via this Variation Request comprise of two separate elements, the **first** associated with changes to Section 3 - Why Change? and Section 5 – Solution within the Modification Proposal and the **second** associated with changes to the supporting legal text in order to both take into account the Varied Modification Proposal and better realignment with the current Uniform Network Code legal text (*based upon v5.71, as at 12 November 2021*).

Modification Proposal Changes

Section 3 – Why Change?

Amend the existing legal text to read as follows:

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.

Please note: there are no other changes proposed for Section 3.

Section 5 – Solution

Amend the existing legal text to read as follows:

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. ~~We are making the assumption at this stage that Ofgem does not provide any further information to the DNOs outside of the high-level lump sum payment set per meter point.~~

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:

$$C_{dom\ meter\ point} = \frac{L_{dom\ credit}}{M_{dom}} + \left(\frac{L_{residual}}{M_{aom}} \times \frac{S_{aom}}{(S_{aom} + S_{non-dom})} \right)$$

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

$L_{credit\ dom}$ = ~~Portion of LRSP payment attributable to customer credit balanced domestic customers as advised by the Authority.~~

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

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

~~S_{dom} = Number domestic meter points of SoLR supplier at time of transfer~~

~~$S_{non-dom}$ = Number non-domestic meter points of SoLR supplier at time of transfer~~

5. ~~If the~~ 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. ~~does not split the credit balance and residual portion components for each GDN, then the Transporters will determine the amount for each component that will be recovered from each GDN, providing that the total amount to be recovered by each GDN will be equal to the LRSP direction.~~
6. The SoLR charge will be calculated by the following for meter points with the non-domestic market sector flag indicator:

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

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

$L_{residual\ non-dom}$ = ~~Portion of LRSP payment not attributable to customer credit balance non-domestic customers as advised by the Authority.~~

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

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

S_{dom} = ~~Number domestic meter points of SoLR supplier at time of transfer~~

$S_{non-dom}$ = ~~Number non-domestic meter points of SoLR supplier at time of transfer~~

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 (~~£4m domestic customer credit balances, £1m other costs~~).
- 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 costs and £0.2m to non domestic costs: ~~Transporters agree to split the amounts between the Credit Balance and residual costs 80:20 as the LRSP direction does not split out the amounts to be recovered from each component:~~

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

Total	100%	£5,000,000.00	£4,800,000.00	£200,000.00
--------------	-------------	----------------------	----------------------	--------------------

Network	Total	LRSP	Credit Balance	Residual Balance
Northern Gas Networks Limited	12.5%	£623,463.33	£498,770.67	£124,692.67
Wales & West Utilities	11.5%	£573,217.91	£458,574.32	£114,643.58
Scotland Gas Networks PLC	8.3%	£413,891.91	£331,113.53	£82,778.38
Southern Gas Networks PLC	18.6%	£932,359.10	£745,887.28	£186,471.82
Cadent East of England	18.9%	£947,435.01	£757,948.01	£189,487.00
Cadent London	9.3%	£463,762.94	£371,010.35	£92,752.59
Cadent North West	12.1%	£604,848.94	£483,879.15	£120,969.79
Cadent West Midlands	8.8%	£441,020.86	£352,816.69	£88,204.17

* 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:

$$C_{dom\ meter\ point} = \frac{757,948.01 + 909,537.61}{3,800,000} + \left(\frac{189,487.00}{3,800,000} \times \frac{9,000}{(9,000 + 1,000)} \right)$$

$$C_{dom\ meter\ point} = £0.2444$$

$$C_{non-dom\ meter\ point} = \left(\frac{189,487.00 + 37,897.4}{150,000} \times \left(\frac{1,000}{(9,000 + 1,000)} \right) \right)$$

$$C_{non-dom\ meter\ point} = £0.12625$$

- 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:

$$C_{dom\ meter\ point} = \frac{458,574.32 + 550,289.19}{2,000,000} + \left(\frac{114,643.58}{2,000,000} \times \frac{9,000}{(9,000 + 1,000)} \right)$$

$$C_{dom\ meter\ point} = \text{£}0.28175$$

$$C_{non-dom\ meter\ point} = \left(\frac{114,643.5822,928.72}{140,000} \times \left(\frac{1,000}{(9,000 + 1,000)} \right) \right)$$

$$C_{non-dom\ meter\ point} = \text{£}0.082164$$

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

Associated Legal Text Changes

Amend the original proposed legal text for Modification 0687 to read as follows:

~~TRANSPORTATION PRINCIPAL DOCUMENT~~

~~SECTION B – SYSTEM USE AND CAPACITY~~

Amend paragraph 1.7 to read as follows:

~~1.7—Transportation Charges and Metering Charges~~

~~1.7.1—For the purposes of the Code:~~

- ~~———— (a) ———— "**Transportation Charges**" are
 - ~~———— (i) ———— charges (other than Energy Balancing Charges or Storage Charges) payable by a User in respect of a transportation arrangement under the Code, and (subject to paragraph 1.7.8) comprise Capacity Charges, Commodity Charges, Customer Charges, CSEP Charges, and NTS Entry Capacity Retention Charges; and~~
 - ~~———— (ii) ———— amounts payable by a DNO User in respect of DN Pensions Deficit Charges;~~~~
 - ~~(b) ———— "**Metering Charges**" are the prevailing charges payable by a User as contained in the Metering Charges Statement~~
 - ~~(c) ———— "**SoLR Customer Charges**" are the charges, comprising **SoLR Customer (Domestic) Charges** and **SoLR Customer (Non-domestic) Charges**, payable by a Shipper User in accordance with paragraph 11 of Part B of Section Y.~~
- ~~1.7.2 A "**Capacity Charge**" is a charge in respect of, and determined by reference to the amount of, a User's Registered NTS Entry Capacity, Registered NTS Exit Capacity or Registered LDZ Capacity at a System Point.~~
- ~~1.7.3 A "**Commodity Charge**" is a charge in respect of use of a System, determined by reference to the quantity of the gas flow (or the part thereof attributable to a User) at a System Point, or a charge payable by reference to the arrangements in Special Condition 2A or Special Condition 3A of National Grid NTS's Transporter's Licence or Special Condition 1B of the relevant DNO's Transporter's Licence.~~
- ~~1.7.4 A "**Customer Charge**" is a charge payable by reason of being the Registered User of a Supply Point.~~
- ~~1.7.5 In respect of a Customer Charge:~~
- ~~———— (a) ———— the "**Capacity Variable Component**" is the component (if any) thereof the amount of which is determined by reference to the amount of a User's Registered Supply Point Capacity;~~
 - ~~———— (b) ———— the "**Commodity Variable Component**" is the component (if any) thereof the amount of which is determined by reference to the quantity of the gas flow at a Supply Point;~~
 - ~~———— (c) ———— the "**Fixed Component**" is the component (if any) thereof which is not determined by reference to Supply Point Capacity or gas flow.~~
- ~~1.7.6 Where any element of a Transportation Charge is payable by a User pursuant to a contract other than one made upon the terms of the Code, such element shall not in addition be payable under the Code.~~

~~1.7.7 A "CSEP Charge" is a charge payable by virtue of being (in relation to a relevant Connected System Exit Point) a CSEP User.~~

~~1.7.8 The further provisions of the Code set out the basis on which Transportation Charges and Metering Charges are payable by Users; provided that (subject to paragraph 1.8.2) where:~~

- ~~— (a) — the prevailing Transportation Statement or Metering Charges Statement provides for any charge which is not provided for in the Code; and~~
- ~~— (b) — the amount payable by way of such charge in any case is capable of being determined by reference to the provisions of the Code prevailing at the time~~

~~such charge shall be a Transportation Charge or Metering Charge and shall be payable by Users or Users of such class in accordance with the relevant provisions of the Transportation Statement or the Metering Charges Statement respectively.~~

~~1.7.9 For the avoidance of doubt paragraph 1.7.8(b) shall not be taken as requiring that the Code should provide for the determination or (other than by virtue of paragraph 1.7.8) payment of any such charge as is therein referred to.~~

~~1.7.10 The basis on which the Transporter will reduce any Transportation Charges pursuant to Standard Condition 7(5) of the Transporter's Licence is not contained in the Code; and nothing contained in the Code shall be taken to prevent the Transporter from reducing such charges in accordance with that Standard Condition.~~

~~1.7.11 A "SoLR Customer Charge" is a charge payable by a Shipper User following receipt by a Transporter of a valid claim for a last resort supply payment from a supplier pursuant to Standard Condition 48 of the Transporter's Licence.~~

Amend paragraph 1.8.1 to read as follows:

~~1.8 — Rates and amounts of Transportation Charges~~

~~1.8.1 Subject to paragraphs 1.8.2 to 1.8.5 and paragraph 1.10, and except as provided in paragraph 2.9:~~

- ~~— (a) — the amount or rate of any Transportation Charge accrues (irrespective of when it is due for payment); and accordingly the rate of the Transportation Charges payable by a User may vary during the period for which the User holds any System Capacity or is the Registered User of any Supply Point or is a CSEP User;~~
- ~~— (b) — the amount or rate of any Metering Charge payable at any time by a User shall be determined in accordance with the Metering Charges~~

~~Statement in force at the time such charge accrues irrespective of when it is due for payment~~

- ~~(c) the amount of any SoLR Customer Charge payable at any time by a Shipper User shall be determined in accordance with the DN Transportation Charging Methodology.~~

~~SECTION Y – CHARGING METHODOLOGIES~~

~~PART B – DN TRANSPORTATION CHARGING METHODOLOGY~~

~~Add new paragraph 11 to read as follows:~~

~~11 – SoLR Customer Charges~~

~~11.1 Where a DN Operator is in receipt of a valid claim from a supplier for a last resort supply payment in accordance with Standard Condition 48 of the DN Operator's Gas Transporter's Licence ("**Condition 48**") the DN Operator shall be entitled to recover from Shipper Users the SoLR Customer Charge calculated in accordance with this paragraph 11.~~

~~11.2 For the purposes of this paragraph 11:~~

- ~~(a) "**Relevant Date**" means the date of the Authority's last resort direction in respect of the Relevant Supplier;~~
- ~~(b) "**Relevant Supplier**" means the supplier in relation to which the Authority has given the last resort direction in respect of which the Specified Amount relates;~~
- ~~(c) "**Specified Amount**" means, in respect of a valid claim for a last resort supply payment submitted to a DN Operator pursuant to Condition 48, the amount of such claim;~~
- ~~(d) the "**Credit Balance Component**" means such amount (if any) of the Specified Amount that is attributable to the aggregate of credit balances of customers of the Relevant Supplier existing at the Relevant Date; and~~
- ~~(e) the "**Residual Component**" means such amount (if any) of the Specified Amount that is not the Credit Balance Component.~~

~~11.3 Unless the Authority determines the Credit Balance Component of the Specified Amount the Credit Balance Component and Residual Component of a Specified Amount shall be the amounts agreed by and between the DN Operators.~~

~~11.4 Following a valid claim from a supplier under Condition 48 each Shipper User will be required to pay each DN Operator:~~

- ~~_____ (a) _____ in respect of each Supply Meter Point on the DN Operator's System at which the Supply Point Premises are Domestic Premises for which the Shipper User was the Registered User on the Relevant Date, the SoLR Customer (Domestic) Charge;~~
- ~~_____ (b) _____ in respect of each Supply Meter Point on the DN Operator's System at which the Supply Point Premises are Non-Domestic Premises for which the Shipper User was the Registered User on the Relevant Date, the SoLR Customer (Non-Domestic) Charge.~~

~~11.5 The "**SoLR Customer (Domestic) Charge**" in relation to a relevant LDZ Supply Point on a DN Operator's System shall be calculated as follows:~~

$$~~C-D = (CC / MD) + (RC / MD * (S-D / S-D + S-ND))~~$$

~~_____ where:~~

- ~~_____ C-D is the SoLR Customer (Domestic) Charge;~~
- ~~_____ CC is the Credit Balance Component of the Specified Amount;~~
- ~~_____ MD is the total number LDZ Supply Meter Points on the DN Operator's System on the Relevant Date at which the Supply Point Premises are Domestic Premises;~~
- ~~_____ RC is the Residual Component of the Specified Amount;~~
- ~~_____ S-D is the total number LDZ Supply Meter Points on the Total System on the Relevant Date at which the Supply Point Premises are Domestic Premises and in respect of which the Relevant Supplier was the supplier of gas to such premises;~~
- ~~_____ S-ND is the total number LDZ Supply Meter Points on the Total System on the Relevant Date at which the Supply Point Premises are Non-Domestic Premises and in respect of which the Relevant Supplier was the supplier of gas to such premises.~~

~~11.6 The "**SoLR Customer (Non-Domestic) Charge**" in relation to a relevant LDZ Supply Point on a DN Operator's System shall be calculated as follows:~~

$$~~C-ND = (RC / M-ND) * (S-ND / S-D + S-ND)~~$$

~~_____ where:~~

- ~~_____ C-ND is the SoLR Customer (Non-Domestic) Charge;~~
- ~~_____ RC is the Residual Component of the Specified Amount;~~
- ~~_____ M-ND is the total number LDZ Supply Meter Points on the DN Operator's System on the Relevant Date at which the Supply Point Premises are Non-Domestic Premises;~~

~~S-ND is the total number LDZ Supply Meter Points on the Total System on the Relevant Date at which the Supply Point Premises are Non-Domestic Premises and in respect of which the Relevant Supplier was the supplier of gas to such premises;~~

~~S-D is the total number LDZ Supply Meter Points on the Total System on the Relevant Date at which the Supply Point Premises are Domestic Premises and in respect of which the Relevant Supplier was the supplier of gas to such premises.~~

~~11.7 SoLR Customer Charges shall be invoiced and payable in accordance with Section S.~~

TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Amend paragraph 1.7 to read as follows:

1.7 Transportation Charges and Metering Charges

1.7.1 For the purposes of the Code:

...

- (c) Transportation Charges in respect of the NTS are divided into Transmission Services Charges and Non-Transmission Services Charges as provided in the NTS Transportation Charging Methodology; ~~and~~
- (d) the “**NTS Transportation Charging Methodology**” is National Grid NTS’s transportation charging methodology contained in Part A-I of TPD Section Y; ~~and~~
- (e) “SoLR Customer Charges” are the charges, comprising SoLR Customer (Domestic) Charges and SoLR Customer (Non-domestic) Charges, payable by a Shipper User in accordance with paragraph 11 of Part B of Section Y.

Add new paragraph 1.7.13 to read as follows:

1.7.13 A “SoLR Customer Charge” is a charge payable by a Shipper User following receipt by a Transporter of a valid claim for a last resort supply payment from a supplier pursuant to Standard Special Condition A48 of the Transporter’s Licence.

Amend paragraph 1.8.1 to read as follows:

1.8 Rates and amounts of Transportation Charges

1.8.1 Subject to paragraphs 1.8.2 to 1.8.5 and paragraph 1.10, and except as provided in paragraph 2.9:

- (a) the amount or rate of any Transportation Charge accrues (irrespective of when it is due for payment); and accordingly the rate of the Transportation Charges payable by

- a User may vary during the period for which the User holds any System Capacity or is the Registered User of any Supply Point or is a CSEP User;
- (b) the amount or rate of any Metering Charge payable at any time by a User shall be determined in accordance with the Metering Charges Statement in force at the time such charge accrues irrespective of when it is due for payment
- (c) the amount of any SoLR Customer Charge payable at any time by a Shipper User shall be determined in accordance with the DN Transportation Charging Methodology.

SECTION Y – CHARGING METHODOLOGIES

PART B – DN TRANSPORTATION CHARGING METHODOLOGY

Add new paragraph 11 to read as follows:

11 SoLR Customer Charges

11.1 Where a DN Operator is in receipt of a valid claim from a supplier for a last resort supply payment for a specified amount in accordance with Standard Special Condition A48 of the DN Operator's Gas Transporter's Licence ("Condition A48") and which amount (in accordance with Condition A48) may be recovered by the DN Operator in any Formula Year commencing on or after 1 April 2022 the DN Operator shall be entitled to recover from Shipper Users SoLR Customer Charges calculated in accordance with this paragraph 11.

11.2 For the purposes of this paragraph 11:

- (a) "Relevant Date" means the date of the Authority's last resort supply direction to the Relevant Supplier;
- (b) "Relevant Supplier" means the supplier to whom the Authority has given a last resort direction in respect of which the Specified Amount relates;
- (c) "Specified Amount" means, in respect of a valid claim for a last resort supply payment under Condition A48, the amount of such claim as notified to a DN Operator by the Authority.

11.2 When the Authority notifies a DN Operator of a Specified Amount it shall specify how much of the total amount is to be recovered by SoLR Customer (Domestic) Charges and SoLR Customer (Non-domestic) Charges.

11.3 Following a valid claim from a supplier under Condition A48 each Shipper User will be required to pay the DN Operator:

- (a) in respect of each Supply Meter Point on the DN Operator's System at which the Supply Point Premises are Domestic Premises in respect of which the Shipper User is the Registered User, the SoLR Customer (Domestic) Charge;

(b) in respect of each Supply Meter Point on the DN Operator's System at which the Supply Point Premises are Non-domestic Premises in respect of which the Shipper User is the Registered User, the SoLR Customer (Non-Domestic) Charge.

11.4 The "SoLR Customer (Domestic) Charge" (in pence/Day) in relation to an LDZ Supply Point on the DN Operator's System at which on the Relevant Date the Supply Point Premises are Domestic Premises shall be calculated as follows:

$$DC = (A / DSP)$$

where:

DC is the SoLR Customer (Domestic) Charge;

A is the amount of the Specified Amount to be recovered by SoLR Customer (Domestic) Charges as notified to the DN Operator by the Authority;

DSP is the total number of LDZ Supply Meter Points on the DN Operator's System on the Relevant Date at which the Supply Point Premises are Domestic Premises.

11.5 The "SoLR Customer (Non-domestic) Charge" (in pence/Day) in relation to an LDZ Supply Point on the DN Operator's System at which on the Relevant Date the Supply Point Premises are Non-domestic Premises shall be calculated as follows:

$$NDC = (B / NDSP)$$

where:

NDC is the SoLR Customer (Non-domestic) Charge;

B is the amount of the Specified Amount to be recovered by SoLR Customer (Non-domestic) Charges as notified to the DN Operator by the Authority

NDSP is the total number of LDZ Supply Meter Points on the DN Operator's System on the Relevant Date at which the Supply Point Premises are Non-domestic Premises

11.6 SoLR Customer Charges shall be invoiced and payable in accordance with Section S.

Proposers Representative

Lousie Hellyer

Proposer

Total Gas & Power