

Representation - Draft Modification Report UNC 0687

Creation of new charge to recover Last Resort Supply Payments

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

To: enquiries@gasgovernance.co.uk

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

Representative:	Penny Jackson
Organisation:	npower
Date of Representation:	5 th September 2019
Support or oppose implementation?	Oppose
Relevant Objective:	a) None c) Negative

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

Npower opposes this modification.

We support the general principle that cost recovery should be targeted to the market sector that it originates from, we do not believe that the proposed modification achieves this principle. 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.

Our high level concerns are:

- (a) The solution proposes that customers in different GDN regions will pay a different amount to fund the SoLR process. We do not believe this is fair. It should be noted that in electricity, every DNO charges the same SoLR fixed charge component to domestic customers.
- (b) It is not at all clear in the solution when this new charge would be invoiced to suppliers. There is conflict and lack of clarity in the legal text. Point 2 suggests that the gas transporter will bill suppliers immediately? Point 7 suggests that claims will be held for a year and aggregated together. This area of the proposal needs much more clarification.

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.

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.

(c) In the legal text: Section Y

"Relevant Date" means the date of the Authority's last resort direction in respect of the Relevant Supplier;

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;

Using the number of supply meter points that a shipper has registered on a date in the past means that this is an ex post charge. This proposed approach would make the recovery of gas LRSP different to electricity since electricity is based on portfolio at time of recovery (i.e. a daily charge over the year) rather than a portfolio snapshot on a particular day. This is not an improvement to the current charging, where costs are recovered through the normal gas network tariffs over a financial year and shippers are charged for the customers they have at any one time.

- (d) No consideration has been given in the proposal to whether or not suppliers will actually be able to pass this through to their customers. Timing of the invoicing is absolutely critical to suppliers. It is important to recognise that suppliers can only reflect these additional charges into prices if they are known at the time that the customer signs a new deal with their supplier. Non-SVT customer contracts can be for 1, 2 or 3 year periods, the short timescales possibly indicated in this modification would make it impossible to reflect the charges into the vast majority of customer contracts since prices would already be fixed. Shippers and suppliers would therefore be absorbing this additional cost since they would have no means to pass this through into tariffs. This solution is therefore not meeting its objective of allocating the costs to the correct customer. It is simply an immediate mutualisation of LRSP costs to suppliers. Receipt of a large charge with short notice could lead to further SoLR events as small suppliers struggle to find the cash flow to pay it. A much more reasonable and fair notice period would need to be provided. We would suggest that, for consistency, the working group should be comparing this modification with timescales for electricity SoLR (DCP332).
- (e) The Ofgem price cap would not incorporate this new charge into the rate that suppliers can charge SVT customers. It is therefore a charge directly to shippers and suppliers of those customers.
- (f) We are concerned that there is no methodology on how the costs will be split if Ofgem do not provide information on LRSP costs on credit balances. Point 5 of the solution

5. If the LRSP direction 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.

The legal text will need to clearly define the methodology for GDNs to follow in the event Ofgem does not provide this information.

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

We do not believe that this modification is sufficiently developed to be implemented. Consideration needs to be given to the points above.

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

IT costs will be for billing and settlement systems. A further impact assessment would be required pending clarity on implementation to be able to understand the settlement system costs.

Analysis around this is difficult. The proposed methodology of the SoLR charge would make it more challenging to accurately calculate the SoLR impact since the LRSP split between the credit balances and the residual is unknown until Ofgem determination.

Shippers and suppliers would bear the vast majority of the new charge since they could not be priced into domestic contracts – either fixed term or SVT. For the small amounts proposed which would be charged on non-domestic customers, we would need to pay to have our billing systems changed in order to pass these additional costs through to larger customers on pass through charging arrangements. These IT system change costs would probably be larger than the costs we could recover from business customers on pass through contracts.

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

No – the legal text is confusing and does not represent the process that is outlined in the solution. We do not believe this is fit for purpose.

1 In the Solution (p6, bullet point 5), it is stated:

5. If the LRSP direction 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.

The methodology for the Transporters to determine this split is not outlined in the legal text.

- 2 As highlighted in our reasons to oppose this modification, it is not at all clear in the solution when this new charge would be invoiced to suppliers. There is no further detail in the legal text.
- 3 The formulas in the legal text are incorrect.

e.g. The solution states

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

The legal text (11.5) has brackets in the wrong place – meaning it does not mirror the above solution.

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

This error applies also to 11.6 (C-ND calculation).

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 agree that the current methodology may recover costs disproportionately across market sectors.

The gas distribution network charging structure cannot be easily updated to split a fixed cost across market sectors. This is also highlighted in the Xoserve presentation of adding the new charge type to core invoices (Option 1) as requiring high resource and long delivery timescales. Network charges should not be changed for a cost that if the market was working efficiently should only ever be exceptional. The core issue is that Ofgem is allowing suppliers to exit the market with debt and we would hope new controls would be put in place to prevent or reduce this going forwards.

We would welcome a modification that could split Last Resort payment claim costs fairly across market sectors in a manner that provides shippers and suppliers time to recover the costs through tariffs. The modification would also need to be implemented at a reasonable cost to the industry.

The report erroneously states “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.” This is simply not the case. The existing way DNO’s will recover the charges in

power is the same for every DNO. This is an adjustment to the standing charge element of Domestic tariffs only. (This allocation is not driven by the line loss factor). Also, unlike the approach suggested in this change proposal, the SoLR adjustment to the standing charge recovered is the same for every electricity DNO area. We are concerned that this proposal will create varying Domestic and Non-Domestic recovery charges for all of the GDN areas, thereby making the solution unnecessarily complicated.

One option that may wish to be considered 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. While we recognise that this may require Industry cross-code collaboration, it is clear that the electricity DNO approach resolves the SoLR charging issue in a more practical way. Alternatively, Ofgem could simply direct this to happen. It would not matter that all SoLR charges are recovered through electricity charges since this whole approach is simply a means of providing a fund to support the SoLR process and to protect credit balances of consumers. In addition, the SoLR charges are as separate to gas transportation methodology as they are to electricity transportation methodology. Putting all SoLR costs through the electricity DNO solution would provide a pragmatic way of recovering all SoLR costs. It can be easily targeted, as now, to domestic users and is consistent.

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

Relevant Objective a) No impact

We do not agree that this is a positive change.

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.

Relevant Objective c) **Negative** impact

We believe this has a negative impact on the Relevant Objective.

It 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.