Representation - Modification UNC 0797 (Urgent)

Last Resort Supply Payments Volumetric Charges

Responses invited by: 5pm on 04 January 2022

To: enquiries@gasgovernance.co.uk

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

Representative:	George Moran
Organisation:	British Gas
Date of Representation:	04 Jan 2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** None **c)** Negative

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

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

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

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

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

0797 has not been subject to sufficient scrutiny and analysis by stakeholders due to its Urgent status and the desire for expedited implementation of a change of some kind to serve Ofgem's policy intentions. This presents a high risk that neither the methodology proposed nor the systems change solution will be fit for purpose, with potential negative impacts across industry, and for both domestic and non-domestic consumers. We note only oral indications from discussion with Xoserve have been provided that a systems solution can be delivered for 1 Apr 2022 implementation. No information has been provided of what that change would constitute and therefore what its implications for market participants might be. Xoserve has also stated in writing recently that: "*there is a significant amount of change planned between January and April 2022. This brings inherent risk into our delivery and support of critical production services and processes*".

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

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

The current default tariff Price Cap model itemises three charge elements: system capacity, system commodity and customer capacity. The new SoLR customer charge would need to be incorporated in the model, for example by adding it to one of the existing capacity tariffs. While this amendment sounds simple, we are concerned that this cannot be done without a formal change to the Price Cap methodology. It certainly cannot be assumed that a new charge would automatically be included in the Price Cap. If an efficient supplier is unable to recover its costs, then this will adversely affect competition in supply (and could even lead to more SoLR instances).

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

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

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

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

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

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

No.

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

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

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

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

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

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

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

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

No further information provided.