

UNC Workgroup 0688 Minutes
Recovery of Shipper Losses incurred in Supplier of Last Resort
events

Thursday 20 May 2019

at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Andrew Blair*	(AB)	Interconnector
Andrew Pearce	(AP)	BP
Angharad Williams	(AW)	National Grid NTS
Anna Shrigley	(AS)	Eni Trading & Shipping
Bill Reed	(BR)	RWE
Chris Wright	(CR)	Exxon Mobil
David Cox*	(DC)	London Energy Consulting
Edd Fyfe	(EF)	SGN
Gareth Evans	(GE)	Waters Wye Associates
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JF)	SSE
John Costa	(JC)	EDF Energy
Julie Cox*	(JC)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Lea Slokar*	(LS)	Ofgem
Mark Carolan*	(MC)	Ofgem
Phil Hobbins	(PH)	National Grid NTS
Richard Fairholme*	(RF)	Uniper
Shiv Singh*	(SS)	Cadent
Sinead Obeng*	(SO)	Gazprom
Steve Britton*	(SB)	Cornwall Insight
Steve Pownall	(SP)	Xoserve

**via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0688/020519>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 August 2019.

1.0 Outline of Modification

Gareth Evans (GE) introduced the Modification and explained the change was proposed to allow shippers that have incurred unrecoverable costs from shipping for sites where the supplier is subject to a Supplier of Last Resort event (SoLR), to recover such costs via Balancing Neutrality Charges.

In summary this Modification is centred on underwriting of *shipper* costs when a *supplier* fails.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

None raised.

2.2. Initial Representations

None received.

2.3. Terms of Reference

The standard UNC Workgroup Terms of Reference will apply and these are available at <https://www.gasgovernance.co.uk/mods>

2.4 Workgroup Discussion

GE explained that currently, when a supplier is in financial failure, Ofgem carry out various checks and look to appoint a Supplier of Last Resort (SoLR), who are then be assigned the affected customers. The SoLR Supplier is able under the Supplier licence, to claim for the costs it has incurred from taking on these customers. Shipper costs cannot currently be recovered.

GE outlined the timeline of what happens:

- A supplier organisation goes into administration or is in liquidation
- Ofgem finds out that the supplier organisation has gone into administration or liquidation
- Ofgem begins to assess who might be interested in taking on the affected customers
- Ofgem invokes its powers, revokes the licence and initiates an SoLR event, announcing that the custoemrs will move to another supplier
- New supplier is appointed
- Xoserve/CDSP is told of the move and a date for the move is set
- Move date occurs
- Customers are transferred to by CDSP from the old shipper short code to the short code for the new supplier
- All customers are transferred.

GE said that in the period between the failure and the relevant Supply Meter Points (customers) transferring to the new supplier under SoLR, the shipper then registered for the Supply Meter Points is still liable for all the costs of supplying them. He added that there was currently no avenue of protection through legislation for the shipper who also has no control over the timescales involved in the process, hence the reason for the Modification.

GE explained that as other gas shippers (and their associated suppliers) benefit from the increased competition provided by the SoLR process, it seemed appropriate that, like the SoLR process, that other parties underwrite the cost exposure of the affected customers and their shipper.

GE said in theory there could be a licence change to accommodate that requirement (Shipper of Last Resort claims), but presently, there was no indication of any such process being considered. He said an alternative could be to create a process within the UNC to recover these costs from other shippers. He also added that the shippers were able to claim any costs incurred as part of a SoLR event via Balancing Neutrality Charges.

A protracted general discussion took place regarding the potential costs, customer billing and the present trigger in relation to the overall SoLR process, including what actions are subsequently taken by Ofgem to revoke the licence and then the appointment of a new supplier. GE said that he would amend the Modification to encompass the administration procedure in relation to the revoking of the licence when a SoLR event takes place.

Both Graham Jack (GJ) and Bill Reed (BR) proposed that in relation to the costs, that having these shared mutually was not acceptable and that there should be some balance regarding the wholesale commercial gas prices. GJ suggested that shippers already reflect this risk when striking contractual relationships with suppliers. GE said this proposal was not in relation to de-risking and that he was suggesting adding a liability cap into the Modification, to aid with clarity. He gave an overview of the main areas of the solution as detailed below:

- Shippers will be able to claim any costs incurred as part of a SoLR event via Balancing Neutrality Charges.
- Shippers will be able to claim the wholesale gas, transportation and Unidentified Gas costs for the period between the Supplier going into administration/having its licence revoked and the transfer of the customers to the appointed Supplier in the agreed timescales.
- Costs will be recovered via the balancing neutrality process.
- The commencement point or trigger needs to be finalised

Some discussion took place around the need to match the process in place for recovery of supplier costs so that shippers are also covered in a similar manner.

GE then provided an overview of the Business Rules and he requested that the Workgroup were to respond directly to him, with regards to Business Rule 1, and whether this was acceptable. If this was unworkable then he did not wish to waste Workgroup time discussing it further.

Business Rule 1.

1. Shippers may submit a claim for the UNC-related costs incurred during a SoLR event, termed an "SoLR Shipper Cost Claim". A SoLR Shipper Cost Claim will be for the costs incurred by a Shipper for shipping gas to Supply Meter Points registered to a Supplier ("default SoLR Supplier") for the period after it has gone into administration or has had its licence revoked, up to the transfer of the Supply Meter Points to another Supplier. ("SoLR Period").

New Action 0501: Workgroup (All) to confirm directly to Gareth Evans (GE) and to the Joint Office if Business Rule 1) is acceptable, from a logistics perspective.

GE then proceeded to elaborate on the context of the other Business Rules and said that a general discussion needed to take place regarding if the SoLR *Supplier* should be liable for costs of shipping after the SoLR event takes place (this would be an alternative solution). GE said he would investigate this matter in more depth and Steve Pownall (SP) also agreed to look into this matter from a billing process point of view.

New Action 0502: Waters Wye Associates (GE) to investigate if the SoLR *Supplier* should be liable for the costs of shipping after the SoLR event takes place

New Action 0503: Xoserve (SP) to confirm from the CDSP point of view when the billing procedure commences for the new customer.

BR said he wanted to know how the administration costs with regards to the claims process would be addressed, in the raising of the claim and any associated administration fee in connection with this.

New Action 0504: Waters Wye Associates (GE) to investigate the claims process, i.e; the cost of raising a claim, any administration fee and the associated timeline.

GE said that his thoughts for the Modification were initially for this to be self-governance status, however following the discussions within the meeting, he would now propose Authority Direction. He then said the impact on a particular shipper from these costs was potentially significant, but the total costs incurred by the market via the Balancing Neutrality Charges as a

whole was not likely to be considered material as the claims would be relatively infrequent and across the whole industry.

GE outlined a worked example:

- A group of 100,000 customers are supplied by a medium new entrant type shipper.
- For each customer, consumption is around 13,500 kWh (this is slightly above average)
- This totals 3.7GW/day total gas consumption
- At 2p/kWh this amounts to costs of £74,000/day
- Assume UIG is 4% this totals £3000 which brings total to £77,000/day
- With the addition of Transmission costs this gives a final total of £100,000-110,000/day
- This amounts to £1 per customer per day

Workgroup discussed a liability cap of 4-5 days' worth of costs amounting to around £400,000-500,000 in the example shown above.

CW asked what would happen if some/all of the customers are non-domestic.

3.0 Next Steps

Rebecca Hailes (RH) confirmed next steps for the June meeting were as detailed below:

- To ensure all other alternative solutions had been considered and confirmation of which have been rejected.
- Confirmation that the contractual role of the CDSP will be sufficient to carry out the tasks that will be assigned to them.

New Action 0505: Xoserve (SP) to confirm that the contractual role of the CDSP will be sufficient to carry out the tasks that will be assigned to them.

- Confirmation of the liability cap or collar; suggestions are for a cap £1million and a collar £50,000
- Consideration of an administration fee.
- Consideration of what happens if some/all customers are non-domestic
- Which price to use; SMBP or SMSP
- Default supplier details
- Confirmation of Authority Direction status
- Confirmation of the 'netting off' procedure
- Details for of the aggregation of system payments and the sum
- Consideration of smearing over several months; how this would work
- Consideration of 12 month waiting period to claim,
- Consideration of:
 - Notification of a claim arrival by a specific date
 - Notification of a claim submitted and the outcome of it, together with the publication of the claim itself
 - Notification to the Industry that a claim is being considered and the subsequent outcome
 - Confirmation of the trigger point for the claim to be initially raised.

New Action 0506: Ofgem (LS) to confirm how the Supplier of Last Resort (SoLR) process works including timescales and internal considerations where possible for Ofgem to present at the next meeting

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Thursday 06 June 2019	Radcliffe House, Blenheim Court, Warwick Road Solihull, B91 2AA	Detail planned agenda items. <ul style="list-style-type: none"> • Amended Modification • Consideration of Business Rules • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts • Consideration of Legal Text • Development of Workgroup Report

Action Table (as at 02 May 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501	02/05/2019	2.4	Workgroup (All) to confirm directly to Gareth Evans (GE) and to the Joint Office if Business Rule 1) is acceptable, from a logistics perspective.	Workgroup (ALL)	Pending
0502	02/05/2019	2.4	Waters Wye Associates (GE) to investigate if the SoLR <i>Supplier</i> should be liable for the costs of shipping after the SoLR event takes place	Waters Wye Associates (GE)	Pending
0503	02/05/2019	2.4	Xoserve (SP) to confirm from the CDSP point of view when the billing procedure commences for the new customer.	Xoserve (SP)	Pending

Action Table (as at 02 May 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0504	02/05/2019	2.4	Waters Wye Associates (GE) to investigate the claims process, i.e; the cost of raising a claim, any administration fee and the associated timeline.	Waters Wye Associates (GE) to	Pending
0505	02/05/2019	2.4	Xoserve (SP) to confirm that the contractual role of the CDSP will be sufficient to carry out the tasks that will be assigned to them.	Xoserve (SP)	Pending
0506	02/05/2019	2.4	Ofgem (LS) to confirm how the Supplier of Last Resort (SoLR) process works including timescales (and internal considerations where possible) for Ofgem to present at the next meeting	Ofgem (LS)	Pending