UNC Draft Modification Report	At what stage is this document in the process?

UNC 0687V:

Creation of new charge to recover Last Resort Supply Payments

01 Modification
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Purpose of Modification:

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.

This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this Modification.

The close-out date for responses is 30 December 2021, which should be sent to: enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at: https://www.gasgovernance.co.uk/0687

The Panel will consider the responses and agree whether or not this Modification should be made.

High Impact:

Shippers

Medium Impact:

Gas Distribution Networks

Low Impact:

CDSP

Contents

Timetable

Modification timetable:

Initial consideration by Workgroup*	10 May 2019
Workgroup Report presented to Panel*	15 August 2019
Draft Modification Report issued for consultation*	15 August 2019
Consultation Close-out for representations*	06 September 2019
Final Modification Report available for Panel*	09 September 2019
Modification Panel decision*	19 September 2019
Ofgem Send Back	08 December 2021
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 Consideration	12 January 2022
Final Modification Report to Ofgem	12 January 2022

** refers to the original Modification 0687*

Any questions?

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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

Justification for Authority Direction

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.

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 <u>for domestic customers</u>; 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:

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

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

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

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

5. When issuing an LRSP direction the Authority will provide the payment split between Domestic/Non-Domestic, to allow GDNs to use in pricing calculations.

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

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

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

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

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

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 GB's 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
Cadent East of England	*18.90%*	*£947,435.01*	*£909,537.61*	*£37,897.40*
Cadent London	*9.30%*	*£463,762.94*	*£445,212.42*	*£18,550.52*
Cadent North West	*12.10%*	*£604,848.94*	*£580,654.98*	*£24,193.96*
Cadent West Midlands	*8.80%*	*£441,020.86*	*£423,380.03*	*£17,640.83*
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:

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

$$C_{dom\ meter\ point} = £0.24$$

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

$$C_{non-dom\ meter\ point} = £0.25$$

- 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:

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

$$C_{dom\ meter\ point} = £0.275$$

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

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

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.

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.

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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: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (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 published alongside this report. The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

None provided.

Text

Legal Text is published alongside this report at: https://www.gasgovernance.co.uk/0687

10 Consultation Responses 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	Does not support this Modification for the following reasons: **Price Cap Implications (negative impact on Relevant Objective c)** 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). **Additional Uncertainty (negative impact on Relevant Objective c)** 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 how to incorporate LRSP costs into their charging methodologies.

			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. **Cost reflectivity (no impact on Relevant Objective a)** 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. **Proportionality and Practicality** 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. 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. 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. 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.
Cadent	Support	a - positive c - positive	• 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 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.
Gazprom	Support	a - positive c - positive	• 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	a - positive c - positive	• 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	a - positive c - positive	• 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:

			• 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. • 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	• 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. **Relevant Objective a) No impact** 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. **Relevant Objective c) Negative impact** 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.
ScottishPower	Support	a - positive c - positive	• 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	• 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.

Southern Electric Gas Limited	Oppose	a - None
		c - Negative
			• The arguments in opposition to the Modification are as follows:
			  ◦ 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.
			Therefore, the impact of the Modification on all the Relevant Objectives is negative.

Total Gas & Power
(Proposer)
	Support	a - positive
		c - positive
			• This change addresses the following which were originally identified:
			  ◦ 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.
Wales & West Utilities	Support	a - positive c - positive	• 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 would be expected to further competition between Shippers. • 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 Recommendations

Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to further consultation and all parties should consider whether they wish to submit views regarding this varied Modification.

This 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 representations received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.