

UNC Modification		At what stage is this document in the process?
<h1>UNC 0688:</h1> <h2>Recovery of Shipper Losses incurred in Supplier of Last Resort events</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid blue; padding: 2px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; padding: 2px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; padding: 2px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>A change is 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, to recover such costs via Balancing Neutrality Charges.</p>		
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> subject to self-governance; and assessed by a Workgroup <p>This Modification will be presented by the Proposer to the Panel on 18 April 2019. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact: None</p>	
	<p>Medium Impact: Shippers</p>	
	<p>Low Impact: None</p>	

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Timetable		
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	02 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	
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1 Summary

What

Currently, when a Supplier is in financial failure, Ofgem will carry out various checks and look to appoint a Supplier of Last Resort (SoLR), who will 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, including the outstanding domestic customer credit balances.

In the period between the failure and the relevant Supply Meter Points transferring to the new Supplier under SoLR, the Shipper registered for the Supply Meter Points is still liable for all the costs of supplying them, including, but not limited to, the gas, transportation and settlement costs. There is currently no avenue of protection through legislation and the Shipper has no control over the timescales involved in the process. Shippers must comply with any relevant directions given to them by Ofgem to facilitate the SoLR supplying gas or to make arrangements to convey gas to the premises regardless of the fact that the costs being incurred are unlikely to be recovered.

Why

This position is leading to increased pressures on Shippers which could ultimately have a negative impact on the gas market as a whole. If this situation is not rectified it is likely that:

- Shippers will be unwilling/unable to offer shipping services to Suppliers;
- less new Suppliers will be able to enter the market; and
- there will be less competition for end consumers.

In addition to the above, this situation is putting existing Shippers in an untenable position and could ultimately lead to Shipper failure. If this were to be the case, there is currently no statutory or licence provision to appoint a "Shipper of Last Resort" regardless of whether or not the Supplier remains solvent. The potential consequences of an event such as this would have significant ramifications for the whole of the industry.

How

In the absence of any relevant license process for recovering costs as a Shipper, it is proposed that Shippers are 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.

2 Governance

Justification for Self-Governance

The impact on a particular Shipper from these costs is potentially significant, but the total costs incurred by the market via the Balancing Neutrality Charges as a whole is not likely to be considered material as the claims will be relatively infrequent and across the whole industry. In light of this, it is considered that the proposal is not a material change and therefore should be subject to self-governance.

Requested Next Steps

This Modification should:

- be considered a non-material change and subject to self-governance
- be assessed by a Workgroup.

3 Why Change?

When a gas or electricity Supplier has its licence revoked (primarily due to going into administration), Ofgem is required to reallocate those customers to another licence holder. This is termed the Supplier of Last Resort (SoLR) process. The powers to do so sit in the Gas Act 1986 and Electricity Act 1989 (as amended). A SoLR Supplier can claim the additional costs for the supply of the customer over and above what it expects to recover. This can include domestic customer credit balances outstanding. Once the amounts have been agreed, Ofgem then directs the gas transporters to pay the SoLR Supplier and then recover the same amount from the industry via transportation charges.

By contrast, there is currently no process for the costs that a Shipper would incur during a SoLR event to be recovered. The registered Shipper of the supply points of the now defunct Supplier is unable to switch the customers away until the SoLR process is completed. So in a situation where the Shipper is different to the Supplier, Shippers are left carrying the financial burden of supplying the sites until the sites have been switched to the SoLR Shipper (the timescale of which can vary owing to the circumstances of the event) and have no realistic means of recovering the costs.

Realistically it is not practical for a Shipper to protect itself from these costs via normal routes for dealing with a counterparty, which is through credit cover or margin. Shippers cannot simply abandon customers of Suppliers who are struggling; any form of credit cover would have to be excessive to cover for the period of time in which a Supplier fails to pay its bills as it goes into default and then additional costs when the Supplier's customers are being transferred. In addition, during a SoLR event, the Supplier is invariably in administration and so it is debatable as to whether credit cover lodged by the Supplier with its Shipper can be used to cover shipping to the defunct Supplier's customers.

Under the current arrangements therefore the Shipper does not have any control over the costs being incurred during the SoLR event, the time period they will be incurred for and are very likely to recover costs if a Supplier fails. This increases the risk of Shipper failure and discourages Shippers from engaging with smaller Suppliers.

There is a general acceptance that the ultimate costs of a Supplier failure is borne by the industry to facilitate competition. To not restrict competition in shipping services for smaller Suppliers there seems to be a need to develop a similar process for Shippers for the limited period between a Supplier ceasing operations and the customers being reassigned.

4 Code Specific Matters

Reference Documents

None identified.

5 Solution

Shippers will be able to claim costs from the industry in the event they are exposed to unrecoverable costs from a Supplier of Last Resort Event. Any claim will be limited to those unavoidable systems costs that a Shipper of a defunct Supplier incurs between the Supplier going out of business and the defunct Supplier's customers being transferred.

Business Rules

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 ("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").
2. The SoLR Period is the whole number of Gas Days between the announcement that the SoLR Supplier has gone into administration/liquidation or has its licence revoked (whichever is earlier) and the day in which the sites are transferred. For the avoidance of doubt both the Gas Day in which the event triggering the SoLR period occurs and the Gas Day of the SoLR transfer will be included in the SoLR Period.
3. A SoLR Shipper Claim may only be for the Supply Meter Points (including NTS Supply Meter Points and IGT Meter Points) that have been transferred from the defunct Supplier to another Supplier as part of the SoLR process.
4. An SoLR cost claim may comprise of the following cost components incurred during the SoLR Period for each meter points transferred in the SoLR process.
 - a. Wholesale Gas Costs
 - b. Unidentified Gas costs.
 - c. Transportation Charges.
5. Wholesale Gas Costs shall be calculated as the following:
 - a. Sum of NDM Supply Meter Point Demand (calculated in accordance with UNC TPD H2.2) for all Class 3 and Class 4 Supply Points for the SoLR Period.
 - b. Sum of daily offtakes for Class 1 & Class 2 Supply Points (including any NTS sites) for the SoLR Period.
6. Unidentified Gas Costs shall be calculated as the proportion of Unidentified Gas allocated to the Shipper from the Supply Meter Points registered to the SoLR Supplier during the SoLR period.
7. Transportation Gas Costs shall be calculated as the proportion of Transportation Costs allocated to the Shipper from the Supply Meter Points registered to the SoLR Supplier during the SoLR period.
8. A SoLR Shipper Cost Claim must be submitted within 12 months of an SoLR event occurring.
9. The SoLR Shipper Cost Claim will be submitted to the CDSP who will verify the accuracy of the calculation with 30 working days. The Shipper will be required to demonstrate how it arrived at its final claim.
10. The CDSP may amend the claim or suggest changes to the claim if it believes that the value is inaccurate.
11. The CDSP will have full discretion over whether to accept a SoLR Shipper Cost Claim.
12. Once approved by the CDSP the SoLR Shipper Cost Claim will be included as an Aggregate System Payment which is then included in neutrality balancing charges.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None.

Consumer Impacts

This modification will ensure that small new-entrant Suppliers will be able to supply customers, sourcing gas at wholesale prices. This will ensure competition can continue at current levels to the benefit of customers.

Cross Code Impacts

None. Though any claim is likely to include IGT Meter Supply Points as this will be dealt with at a wholesale level, there will be no requirement to reflect the requirements in the IGT UNC.

EU Code Impacts

None.

Central Systems Impacts

None as the amount will simply be an additional amount recovered via neutrality. The CDSP will be required to manually validate SoLR Shipper Cost Claims

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant Suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant Suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None

g) 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
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The industry currently underwrites the costs of Suppliers going out of business via the SoLR process in order to promote competition in the gas and electricity retail markets. This Modification simply extends that principle to Shippers. By providing the same protection to Shippers this will further competition in the same manner as the SoLR process does for Suppliers.

8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

9 Legal Text

To be provided.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that self-governance procedures should apply
- Refer this proposal to a Workgroup for assessment.