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

UNC 0797(Urgent):

Last Resort Supply Payments Volumetric Charges

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

To create a new charge type to pass Last Resort Supply Payments (LRSP) charges from Gas Distribution Networks to Shippers based on the originating market sector using a volumetric unit rate charging methodology.

Next Steps:

Panel consideration is due on 12 January 2022.

Impacted Parties:

High: Shippers, Gas Distribution Networks, CDSP, consumers

Low:

None:

Impacted Codes: None

Contents

Timetable

Modification timetable:	
Modification Proposal sent to Ofgem	22 December 2021
Ofgem decision on Urgency	23 December 2021
Modification Proposal issued for Consultation	23 December 2021
Consultation Close-out for Representations	04 January 2022
Final Modification Report available for Panel	05 January 2022
Modification Panel Recommendation	12 January 2022
Final Modification Report issued to Ofgem	12 January 2022

Any questions?

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1 Summary

What

This Proposal creates a new charge type to be used to recover LRSPs from Supplier of Last Resorts (SoLR). It is based on a volumetric unit rate to ensure that smaller users of gas pay a smaller proportion of the overall recovery. The allocation to specific sectors where the costs originated from provides a fair apportionment.

Why

The existing recovery is managed through General Transportation Charges across all Users regardless of where the costs originated from and is not transparent. UNC Modification 0687V seeks to apportion costs on a meter point basis. This is contrary to how the majority of transportation charges are recovered from customers, using either a peak daily demand or consumption to determine cost. This modification proposes to align LRSP cost recovery with this principle.

How

New charge types for Domestic and Non-Domestic using existing Shipper maintained Market Sector Codes will allocate value to each sector. This will then be allocated using a volumetric basis so that customers are charged in line with their consumption, as opposed to a flat rate.

2 Governance

Justification for Urgency

In Autumn 2021, wholesale gas prices increased significantly from their January 2021 level which has resulted in a high number of small to medium Supplier organisations to cease trading with their portfolios being transferred through the existing Supplier of Last Resort (SoLR) process.

	Old supplier	**Domestic**	**Non-Domestic**
25/11/2021	Entice Energy	5,400	
25/11/2021	Orbit Energy	65,000	
16/11/2021	Neon Reef	30,000	
16/11/2021	Social Energy Supply	5,500	
03/11/2021	CNG Energy		41,000
02/11/2021	Omni Energy	6,000	
02/11/2021	MA Energy		300
02/11/2021	Zebra Power	14,800	
02/11/2021	Ampoweruk	600	2,000

01/11/2021	Bluegreen Energy Services	5,900	
18/10/2021	GOTO Energy	22,000	
14/10/2021	Daligas	9,000	
13/10/2021	Pure Planet	235,000	
13/10/2021	Colorado Energy	15,000	
29/09/2021	ENSTROGA	6,000	
29/09/2021	Igloo Energy	179,000	
29/09/2021	Symbio Energy	48,000	
22/09/2021	Avro Energy	580,000	
22/09/2021	Green Supplier	255,000	
14/09/2021	People's Energy	350,000	1,000
14/09/2021	Utility Point	220,000	
07/09/2021	PFP Energy	82,000	5,600
07/09/2021	MoneyPlus Energy	9,000	
09/08/2021	Hub Energy	6,000	9,000
27/01/2021	Green Network Energy	360,000	
27/01/2021	Simplicity Energy	50,000	

Ongoing increased wholesale prices combined with the Ofgem domestic price cap have put considerable financial strain onto the SoLR organisations, who in turn are expected to apply for Last Resort Supplier Payments (LRSP) to help fund the cost of taking on these supply points.

Ofgem has issued an Open Letter on 29 October 2021[1] setting out a potential process to speed up the ability of SoLRs to make these claims, concluding on 1 December 2021[2] that they would make necessary arrangements with both Electricity Distribution Network Operators (DNOs) and Gas Distribution Networks (GDNs) to facilitate faster payment to the costs incurred by those suppliers acting as SoLRs, termed Last Resort Supplier Payment claims (LRSP). The LRSP process is designed to keep DNOs and GDNs neutral and as a result significant indicative price increased have been published by GDNs for the 2022/23 year. Final prices for this will be published on 31 January 2022, and therefore any changes to the current non-targeted arrangements need to be approved in time for this price setting to be completed and published. This imminent time related event currently

[1] https://www.ofgem.gov.uk/publications/consultation-last-resort-supply-payment-claim-edf
[2] https://www.ofgem.gov.uk/publications/decision-letter-supplier-last-resort-levy-claims

proposes to pass a material value through the LRSP (circa £900m for gas[3] process in 2022/23, thereby meeting the requirements for being treated as Urgent[4].

Requested Next Steps

This Modification should:

- be treated as Urgent and should proceed as such under a timetable agreed with the Authority.

Due to the time constraints, the Proposer believe that this Proposal should be issued directly for Consultation.

3 Why Change?

In Autumn 2021, wholesale gas prices increased significantly, from their January 2021 level which has resulted in a high number of small to medium Supplier organisations (see section 2) to cease trading with their portfolios being transferred through the existing Supplier of Last Resort (SoLR) process[5]. Ongoing increased wholesale prices combined with the Ofgem domestic price cap have put considerable financial strain onto the SoLR organisations, who in turn are expected to apply for Last Resort Supplier Payments (LRSP) to help fund the cost of taking on these supply points.

Current arrangements which are not specifically set out in the GDN's Charging Methodologies[6] would spread all costs to gas meter points as a direct proportion of their current allocation of Gas Transporter charges. It is widely acknowledged that the vast majority of the LRSP costs come from the domestic market, and therefore it is inappropriate for non-domestic meter points to bear a disproportionate amount of the costs. In April 2019, Total Gas & Power Limited, now trading as TotalEnergies Gas & Power Limited, raised UNC0687 which sought to target costs to the market where the costs were incurred, however this was not approved and has remained in flight with no Authority decision. This Proposal also aims to target costs to appropriate markets, but rather than a flat standing charge as in UNC0687, it is proposed that a volumetric process is used to determine the unit rates.

The use of a volumetric driver for unit rate calculations will help further apportion costs in relation to usage. In all markets market this would mean that properties with a lower usage, such as small flats or businesses, would receive a smaller proportion of the overall charge than a detached multi-bedroom house or process load, which uses significantly more gas. While we acknowledge that there may be some properties where usage and relative size or value are not in relation, such as holiday homes, this would help drive down the impacts particularly in fuel poor households.

4 Code Specific Matters

Reference Documents

Gas Distribution Network Operator Charging Methodologies
https://www.gasgovernance.co.uk/index.php/DNcharges

[3] https://www.gasgovernance.co.uk/indic/2022
[4] https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2018-11/ApprovedUrgentProposalsGuidelines.pdf
[5] https://www.ofgem.gov.uk/publications/supplier-last-resort-revised-guidance-2016
[6] https://www.gasgovernance.co.uk/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

Outline

A new specific charge type (SoLR Customer Charge) will be created and added to the current Distribution Network Transportation Charging Methodology. Cost recovery will be targeted to market sector to align to the sector where the costs arose from.

A volumetric approach will then ensure that within each market sector, smaller users of gas pay a lesser charge than larger users.

It is proposed that the initial market sector allocation is managed either through direction from the Authority (where provided) or using the Market Sector Code contained within the UK Link.

Charges will be issued using a new charge type on either an ad-hoc invoice or added to one of the existing core invoices, which Xoserve have indicated that they will be able to deliver.

Business Rules

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 and no invoices issued.
4. The Domestic or Non-domestic sector value will be determined either by direction from the Authority, or where that is not provided by the Authority, on meter point count basis (at the time of the SoLR appointment) using the Market Sector Code held within the UK Link for each Network.

   Domestic value = Specified Amount * (Domestic MPRN count / Total MPRN count)

   Non-domestic value = Specified Amount * (Non-domestic MPRN count / Total MRPN count)

   Will be calculated in pence.
5. Each market sector will then have the total sector charge converted into a unit rate presented as pence per peak day kWh

   Domestic unit rate = Domestic value / Domestic Peak Day SOQ used for tariff setting

   Non-domestic rate = Non domestic value / Non domestic Peak Day SOQ used for tariff setting

   Prices will be set using the same SOQ as the existing charging methodology.
6. Invoicing will be issued by the CDSP in line with UNC TPD Section S in the format determined through the DSC Change process

7. In the event of multiple LRSP claims in a single regulatory year, the SoLR Customer Charge will be calculated for each claim and aggregated into a single unit rate per charge code for invoicing purposes.
8. The methodology for calculating the unit rates will be included in UNC TPD Section Y Part B.
9. This methodology and new charge code will apply for all claims that make up the unit rate to be applied from 1 April 2022 onwards. For the avoidance of doubt this will include valid claims up to 31 December 2021 in accordance with the Ofgem letter of 1 December.[7]

6 Impacts & Other Considerations

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

No impact on current SCR.

Consumer Impacts

Transporter costs are a proportion of charges that are passed to all Consumers, therefore as a result it is expected that increased transportation costs will have an equivalent impact on consumer prices. This Proposal will ensure that costs are targeted to the market where they were incurred.

What is the current consumer experience and what would the new consumer experience be?

Current LRSP charges are spread across all customers through Transportation Charges and does not differentiate between the market where the costs were originally incurred. This will re-balance charges to the source market and ensure that within each market the charges are proportionate to gas usage.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
Lower bills than would otherwise be the case This will rebalance costs to originating market which will have distributional impacts. As a result, some customers will incur higher charges and others will incur lower charges.	Positive (Small Consuming Customers) Negative (Larger Consuming Customers)
Reduced environmental damage	None
Improved quality of service	None

[7] https://www.ofgem.gov.uk/publications/decision-letter-supplier-last-resort-levy-claims

Benefits for society as a whole Targeting costs to source markets creates fairer charges for customers. This will result in higher costs for some markets and lower for others.	Positive

Cross-Code Impacts

None identified

EU Code Impacts

None identified

Central Systems Impacts

New charge codes and invoicing arrangements will need to be implemented by Xoserve. Xoserve have confirmed through discussions that they can deliver this modification in time from 1 April 2022.

Given the Urgent nature of this proposal it is expected an interim and enduring solution will both need to be developed. Initial pre-work for UNC0687 may be able to form a basis for this. Current charging does not utilise the Market Sector Code so new rules for creating this form of charging will be necessary.

7 Relevant Objectives

Impact of the Modification on the Transporters' 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

This Modification will require transporters to amend their Charging Methodologies to incorporate the new requirement in the recovery of LRSP costs and ensure that they are targeted at the originating market. This will make the costs more reflective of source market and further competition by applying these costs in a fair and transparent manner.

8 Implementation

As Urgent procedures are proposed, Implementation would be required with sufficient time for Gas Transporters to publish their prices on 31 January 2022, with the charges coming into effect from 1 April 2022.

9 Legal Text

Text Commentary

Legal Text Commentary will be published alongside the Modification.

Text

Legal Text will be published alongside the Modification.

10 Consultation

Ofgem invited representations from interested parties on 23 December 2021. 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 and are appended in Section 13.

Of the 25 representations received 13 supported implementation, 2 offered qualified support, 2 provided comments and 8 were not in support.

(4 representations arrived between 5pm 04 January 2022 and 5pm 05 January 2022 and these have been included in the table below.)

Representations were received from the following parties:		
Organisation	**Response**	**Relevant Charging Methodology Objectives**
British Gas	Oppose	a) none c) negative
Cadent	Qualified Support	a) positive c) positive
Citizens Advice	Comments	a) neutral c) neutral
EDF	Oppose	a) none c) negative

Energy Intensive Users Council (EIUG)	Support	a) not specified c) not specified
ENGIE	Support	a) positive c) positive
EON	Oppose	a) none c) none
Frank Rudd & Sons Woodend Nursery	Oppose	a) negative c) negative
Gazprom Energy	Support	a) positive c) positive
ICoSS	Support	a) positive c) positive
Major Energy Users Council	Support	a) positive c) positive
Mineral Products Association	Support	a) not specified c) not specified
Northern Gas Networks	Support	a) positive c) positive
Octopus Energy	Oppose	a) none c) none
Opus Energy	Support	a) positive c) positive
R & L Holt Ltd & Springhill Nurseries Ltd	Oppose	a) negative c) negative
ScottishPower	Qualified Support	a) none c) positive
SGN	Support	a) positive c) positive
Springhill Farms (Pershore) Ltd	Oppose	a) negative c) negative
SSE Energy Supply Limited	Support	a) positive c) positive
TotalEnergies Gas & Power	Support	a) positive c) positive

Utilita	Oppose	a) none c) none
Wales & West Utilities	Support	a) positive c) positive
West Mercia Energy	Support	a) positive c) positive
Xoserve	Comments	a) not specified c) not specified

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 Panel Discussions

Discussion

Consideration of the Relevant Objectives

Determinations

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0797 [should [not] be implemented.

13 Appended Representations

Representation – British Gas

Representation – Cadent

Representation – Citizens Advice

Representation – EDF

Representation – Energy Intensive Users Council (EIUG)

Representation – ENGIE

Representation – EON

Representation – Frank Rudd & Sons Woodend Nursery

Representation – Gazprom Energy

Representation – ICoSS

Representation – Major Energy Users Council

Representation – Mineral Products Association

Representation – Northern Gas Networks

Representation – Octopus Energy

Representation – Opus Energy

Representation – R & L Holt Ltd & Springhill Nurseries Ltd

Representation – SGN

Representation – Springhill Farms (Pershore) Ltd

Representation – SSE Energy Supply Limited

Representation – TotalEnergies Gas & Power

Representation – Wales & West Utilities

Representation – West Mercia Energy

Representation – Xoserve

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.

Cadent
Your Gas Network

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04th January 2022
Your Reference: UNC Modification Proposal 0797 Urgent

0797 (Urgent) - Last Resort Supply Payments Volumetric Charges

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal which Cadent would like to support.

Do you support or oppose implementation?

Qualified Support

Relevant Objective:

a) Positive

c) Positive

Reason for support/opposition:

Qualified support on the basis approval of this modification does not create a delivery risk for either Gas Distribution Networks final price notifications or the CDSP's ability to deliver the solution.

Implementation

This modification needs to be implemented as soon as reasonably practicable to allow the changes to take effect in April 2022. Sufficient time must be given for the CDSP and GDNs to carry out any changes, assurance and governance work for new charge types to be included in our price notification on 31 January 2022.

Impacts and Costs

If implemented, the GDNs would need to amend their internal calculations/pricing models to align costs/price to the respective market sector.

Legal Text

No further comments

Are there any errors or omissions in this Modification Report that you think should be taken into account?

We have not identified any errors or omissions.

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

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 07884 113385 (andy.clasper@cadentgas.com) should you require any further information.

Yours sincerely,

Andy Clasper

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:	Sam Hughes
Organisation:	Citizens Advice
Date of Representation:	4/1/22
Support or oppose implementation?	Comments
Relevant Charging Methodology Objective:	**a)** Neutral **c)** Neutral

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

Overall this modification would increase the costs to domestic consumers and decrease the costs to non-domestic consumers when recovering Last Resort Supply Payments compared to the baseline arrangements which are clarified in UNC0795S.

However, unlike in UNC0687 the charges are applied on a volumetric basis and not applied at a flat rate to domestic and non-domestic customers.

Evidence suggests that, generally, households in fuel poverty and with the lowest incomes are most likely to under-consume and least likely to over-consume energy.

This suggests that in theory volumetric charging approaches may deliver a fairer solution compared to flat rate charges as proposed in UNC0687V.

However, we are not convinced that introducing a method of allocating Last Resort Supply Payments at late notice is in the interests of consumers generally. Placing additional costs on domestic customers during a cost of living crisis should be avoided. As this is simply a cost recovery charge, and so not designed to send a behavioural signal, the economic rationale for allocating to domestic customers requires further consideration.

We are also concerned that no quantifiable evidence has been provided for the distributional impacts of applying volumetric charges based on peak day demand rather than any other demand metric which could be used to derive charges. A workgroup could have considered these options and in its absence there is a risk of unintended consequences in the recovery of approximately £900million.

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

We are concerned that the timeline of this modification presents a solution at late notice to industry, in particular, the impact it has on GDNs' need to calculate pricing models and publish prices on the 31st January. The timeline also prevents in depth workgroup consideration of the solution, alternative options and assessment of the distributional impacts.

Although this modification has been granted urgent status by Ofgem in order to provide for an expedited process, we would question why this modification could not have been proposed earlier than the 22nd December, which would have provided the proposer with more time to provide quantifiable evidence and parties with more time to consider the modification and its implications in detail.

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

Costs to consumers and businesses are unclear as the consumer impact assessment does not provide any quantifiable analysis of the distributional impacts of the modification's method of recovering circa £900million, including the implications of using peak day demand rather than a different methodology.

Further impact assessment is required.

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

We have not considered the legal text.

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.*

N/A

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

N/A

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:	John Costa
Organisation:	EDF
Date of Representation:	4th January 2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** None – impossible to say if it complies with GDN's licences/ charging methodology given the insufficient amount of time (1 week over the festive period) to assess such a critical proposal at a critical time where so many critical moving parts could have a material impact on the £877m of SOLR costs that need to be recovered and which GDNs, and thus suppliers, have already taken into account in their April 2021 charges. **c)** Negative – given the points above and below implementation in April 2022 of such a fundamental change without proper consideration and time to understand/ implement system changes, processes and consumer tariffs is likely to have unintended consequences and cause pricing volatility which will be detrimental to competition between gas shippers/ Suppliers and therefore consumers.

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

EDF strongly opposes this modification because of the points below but fundamentally because there has been no time whatsoever afforded to Shippers and Suppliers to understand the impact of such a critical change at such a critical point in time for consumers and the energy industry given the unprecedent increases in gas prices and consequent record number of supplier failures. We, along with other prudent Suppliers have already fixed charges for April 2022 and therefore implementation on this date this will create further financial risk for suppliers and consumers.

These arguments (below) apply also to modification UNC687 which has been outstanding now for over 2 years since it was sent to Ofgem and has only been rapidly reprioritised with a new consultation on a new varied UNC687 modification dated 14th December following Ofgem's comments. Ofgem highlights in their Urgent mod UNC797 decision letter that both modifications are alternatives but as such there is insufficient time to consider the two together, the implications and merits of one over the other.

If either modification were to be implemented a delay of 12 months would be needed to allow enough time for the industry along with Ofgem to identify the impacts from the other fundamental reform below happening this Q1 and design a robust final mod proposal that could be properly consulted on and efficiently and prudently implemented in the interest of consumers.

1. Suppliers have fixed Tariffs for customers for the April 2022 year, and it will mean a windfall for non-domestic suppliers (customers could be overpaying) and further unjustified cost increase for Domestic suppliers at a time when so many are struggling and failing. This could precipitate this vicious circle and decrease competition even further and for these reasons neither UNC797 nor UNC687v meets Relevant Objective C (the facilitation of effective competition between gas shippers and between gas supplier).
2. Insufficient time to consider the two proposals alongside each other in order to understand the full impact across all shippers/ suppliers and therefore consumers.
3. Lack of impact assessment for such a material mod and value (£877m) at a critical point in time
4. Linked to the SVT Cap review – we know there is a material review of the customer tariffs in hand and therefore this leaves little time to consider this interaction. For example - UNC797 proposes recovery on a pence per peak day KWh, whereas, the SVT Cap tries to convert this into pence per KWh charge. This will create unintended consequences and potentially Winners and Losers along with likely increased charging volatility.
5. The interaction of Ofgem's 3rd party SOLR financing review – Ofgem issued this review on 30th December which could also have a material impact on the recovery of SoLR costs and the way GDM recover their costs. Time is needed to consider the implications of this proposal alongside these two modifications.
6. The notice period for fundamental transportation charge changes has been increasing from 6 to 15 months to provide certainty and consistency in charging (see Gas charging review UNC621/678 objectives) and implementing such a rapid and fundamental change with a maximum of 2 months' notice will have unintended consequences and set a dangerous precedent. In Electricity the default notice period for Distribution (Duos) charges is 15 months and therefore a 12 month notice period would be consistent with this.
7. Insufficient time for GDNs and Shippers / suppliers alike to make the necessary system changes.

Given all these material issues above, notwithstanding the fact that 0797 is dealing now with circa £877m compared to £5.7m under mod 687V, this mod needs much more development and consideration with so many other moving parts to ensure there are no unintended consequences or market distortions before it can be implemented. We strongly suggest an Impact Assessment is undertaken to fully understand the impacts on consumers before it can be implemented along with a sufficient notice period.

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

We believe there is insufficient time for GDNs and Suppliers to change their systems and processes and tariffs for a 1st April 2022 implementation date given how much work is needed in understanding the implications and deciding on the best coordinated approach to take in the consumer's interest before then.

Further as noted the notice period for transportation charge changes has been increasing from 6 to 15 months and implementing such a rapid and fundamental change with a maximum of 2 months' notice will have unintended consequences and set a dangerous precedent. We suggest a minimum of 12 months' notice on the final detailed proposal and therefore not before April 2023.

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

Impossible to calculate the impact on our business and our customers due to the lack of time and impact assessment on both suppliers and consumers.

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

As above.

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.*

As above.

Please provide below any additional analysis or information to support your8 representation

As above.

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:	Dr Diana Casey
Organisation:	Energy Intensive Users Group
Date of Representation:	4th January 2022
Support or oppose implementation?	Support~~/Oppose/Qualified Support/Comments~~* *delete as appropriate*
Relevant Charging Methodology Objective:	**a)** Positive/Negative/None* *delete as appropriate* **c)** Positive/Negative/None* *delete as appropriate*

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

The Energy Intensive Users Group (EIUG) supports this modification - including market segregation preceding volumetric charge allocation. The EIUG would not support volumetric allocation without segregation into domestic and non-domestic sectors.

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

Implementation should be as soon as possible to ensure that charges are appropriately allocated between sectors and across consumers.

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

No Comment

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

No Comment

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.*

No Comment

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

The cause of such high Supplier of Last Resort (SOLR) costs have arisen from domestic suppliers effectively ‘short selling’ gas and power for which they had no underlying forward trades, or having inadequate risk management in place. The domestic price cap has exacerbated this position. Licensing by Ofgem should have ensured that a greater level of supplier security against exposure to market volatility was in place when supplying domestic consumers.

In contrast, for many large industrial customers, this market price risk is not taken by the licensed suppliers as any exposure is passed through to end consumers via their flexible purchasing supply contracts. A large part of the industrial consumer base therefore accepts market price risk themselves and the supplier takes little or no associated market risk.

Given the above, there is a clear difference between supplier’s exposure to market prices when supplying domestic consumers and when supplying larger industrial consumers. It would therefore be plainly unfair to allocate any of the domestic sector SOLR costs to industrial consumers on flexible purchasing supply contracts who bear the market risk themselves, with suppliers not taking any of the attendant market risks.

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:	Phil Broom
Organisation:	ENGIE Gas Shipper Limited
Date of Representation:	4/1/2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

Given the significant and unforeseen (at the time of the original modification) surplus wholesale costs which are sure to feature in forthcoming LRSP claims it is even more important now that costs arising from SoLR are attributed to the initiating market sector. Accurate cost attribution will avoid cross subsidy of costs between consumer types and better allow for cost recovery via the Ofgem price cap allowances going forwards.

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

As recognised in Ofgem's "minded to" letter for UNC0687 it is crucial to have a decision on cost allocation prior to the notification of final price cap allowances by February 2002 if the resulting increases in DN charges are to be applied in 2022/23 formula year. All market participants need clarity on their charging base to allow for accurate consumer pricing, their own accounting purposes, and to allow the speedy recoup of LRSP claims for those suppliers inheriting consumers as part of the SoLR processes.

The implementation of the charge itself is less important than having clarity on the decision. If there is a delay to the creation of the new charge type, costs can be accrued for whilst implementation is finalised.

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

All market participants require clarity on their cost base as soon as possible to accurately price forward looking contracts, for accounting purposes, and to inform affected customers in advance of any potential impacts to their transportation costs.

This solution is more complex to administer with more complex charging method and more complex invoice validation than 0687V and hence we prefer the original solution.

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

Unable to assess due to time constraints.

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.*

Nothing at this stage.

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

N/A

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:	Clare Manning
Organisation:	EON
Date of Representation:	04/01/2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** None **c)** None

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

As with our representation on Modification 0687 our primary concern is with the timelines for implementation and that there has been no discussion of this modification at work group to really understand whether the solution will deliver the intention or to ascertain the full impacts.

The modification mentions the possibility of both an interim and enduring solution; we would again question the benefit of an interim solution for the reasons outlined in our response to 0687, namely that a) there already exists a mechanism for LRSP recovery and b) the significant amount of industry change already planned for Q1 2022.

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

We have not had sufficient time to properly impact assess this change so we are unsure if shippers would be able to deliver the required system changes in time for a 1 April 2022 delivery. Our preference would be a robust, enduring solution in April 2023

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

As currently proposed shippers would face costs in implementing an interim solution and then again for implementing the enduring solution. We have not yet had the opportunity to fully impact access and are unsure if we could deliver the changes in time for 1 April 2022

We would require all DNs to complete the charging statement in a consistent way; if each party does it differently this will add cost in the form of resources to validate the invoices.

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

The legal text regarding the use of the term “Specified Amount” appears to both refer to the whole amount of a Supplier’s claim and then immediately be then defined as the amount notified by the Authority to a specific DN Operator, so this should be clarified by eg. “Total Specified Amount” and “DN Operator’s System Specified Amount” or similar.

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.*

As with Modification 0687, the issue that costs are split based solely on the number of meter points in each region, regardless of type remains. When Ofgem splits the costs between the DNs, it should do so taking into account their respective domestic and non domestic meter split.

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

No comment

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:	Christopher Rudd
Organisation:	Frank Rudd & Sons Woodend Nursery
Date of Representation:	4th Jan 2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** Negative ** delete as appropriate* **c)** Negative ** delete as appropriate*

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

This change applies the burden of smaller gas suppliers' failure on the larger gas consumer. This is an unreasonable change as these smaller suppliers operate in the smaller supply market and therefore the costs of their failure should be borne by the small consumer – for which market these suppliers intend.

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

None

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

Significant impact in gas costs, which are already at an all time high that threatens our ongoing viability as a business. Gas costs which are typically 25% of our cost base have been subject to increases in the region of 500% which is not sustainable for our business.

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

no

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.*

no

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

We are struggling to pay gas costs currently as our sales to supermarkets do not reflect the true price increases of gas we are incurring in the past six months.

Representation Draft Modification Report

Urgent Modification 0797 Last Resort Supply Payments Volumetric Charges

1. **Consultation close out date:** 4th January 2022

2. **Respond to:** enquiries@gasgovernance.co.uk

3. **Organisation:**
Gazprom Energy
5th Floor
8 First Street
Manchester
M15 4RP

4. **Representative:**
Steve Mulinganie
Regulation Manager
stevemulinganie@gazprom-mt.com
0799 097 2568 / 0751 799 8178

5. **Date of Representation:** 31st December 2021

6. **Do you support or oppose Implementation:**
We **Support** implementation of the Modification

7. **Please summarise (in 1 paragraph) the key reason(s) for your position:**
The Modification aligns the approach in the electricity market and is consistent with Ofgem's minded to position in its letter of the 7th December 2021 and stated aim of allocating Supplier of Last Resort (SoLR) costs to the market sector from which they originate i.e. polluter pays.

8. **Are there any new or additional Issues for the Modification Report:**
No

9. **Self-Governance Statement Do you agree with the status?**
Not Applicable

10. **Relevant Objectives:**
How would implementation of this modification impact the relevant objectives?
We **agree** with the proposer that this modification is positive in respect of Relevant Objective(s) **(a) and (c)**

(a) It ensures DNO's cost recovery is better targeted and reduces the level of cross subsidy

(c) The proposal better targets costs between market sectors thus reducing the levels of cross subsidy and thereby supporting the promotion of effective competition between Gas Shippers and Suppliers

We note that the use of a Volumetric approach will more effectively allocate costs, within the relevant sector, as opposed to a flat standing charge as proposed in 0687V.

In evaluating both 0687V and 0797 and considering which better facilitates the relevant objectives, the ability for either to be implementable from 1st April 2022 has been a key assumption. If 0797 cannot be implemented from the 1st April and 0687V can be implemented, then we would prefer 0687V over 0797 due to the undue detrimental impact on non-domestic customers of any implementation post 1st April 2022.

11. Impacts & Costs:

What analysis, development and on-going costs would you face if this modification was implemented?

We **have not** identified any significant costs associated with the implementation of this modification

12. Implementation:

What lead times would you wish to see prior to this modification being implemented, and why?

This modification needs to be **implemented as soon as reasonably practicable to allow the changes to take effect in April 2022.**

13. Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We **have not** reviewed the Legal Text provided.

14. Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.

No.

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:	Gareth Evans
Organisation:	ICoSS
Date of Representation:	29th December 2021
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

ICoSS agrees with the proposer that the lack of any explicit provision to recover SoLR costs from the market sector they originate from will create a cross-subsidy between the non-domestic and domestic sectors form any LRSP claims arising. This modification provides a clear process for apportioning costs between domestic and non-domestic sectors and so will further relevant objectives a) and c).

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

To avoid a significant cross-subsidy between the domestic and non-domestic markets it is critical that this solution is delivered in time for the GDNs to take account of it when setting transportation charges at the end of January 2022.

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

Members will incur marginal costs in adjusting prices to take account of the revised transportation charging methodology.

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

We have not reviewed the legal text.

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.*

None

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

We note that this modification is effectively an alternate to UNC Modification 0687V. When the two modifications are compared, we believe that UNC Modification 0797 is marginally more beneficial compared to UNC Modification 0687V, in that it intends to base charges on a peak capacity basis so aligning costs with consumption. For the avoidance of doubt ICoSS is supportive of both modifications as they remove any cross-subsidy between domestic and non-domestic markets from SoLR events.

8 Fenchurch Place
London
EC3M 4AJ

T: 020 3432 0333
E: enquiries@meuc.co.uk
www.meuc.co.uk

Joint Office of Gas Transporters,

Dear Sir or Madam

UNC Urgent Modification 0797

The Major Energy Users Council supports the implementation of this Modification, as it provides a clear process for apportioning costs between domestic and non-domestic sectors and so will further relevant objectives a) and c).

We note the similarity between 0687 and this modification and our support would be for whichever can be implemented in time for the GDNs to amend their charges from 1st April 2022, however as by linking the recovery of SoLR cost to the end consumers usage this modification should result in a fairer distribution of costs.

MEUC would also repeat that as the recovery of the SoLR cost in a single year will lead to a large increase in domestic transportation charges followed by a similar reduction for the following year, a means should be found to spread the recovery over the remaining four years of the current GDN price control.

Yours truly,

Eddie Proffitt

Eddie Proffitt
Technical Director, MEUC
M: 07879 255251 eddie.proffitt@meuc.co.uk

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:	Rebecca Hooper
Organisation:	Mineral Products Association
Date of Representation:	4th January 2022
Support or oppose implementation?	Support~~/Oppose/Qualified Support/Comments~~* *delete as appropriate*
Relevant Charging Methodology Objective:	**a)** Positive/Negative/None* *delete as appropriate* **c)** Positive/Negative/None* *delete as appropriate*

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

The Mineral Products Association (MPA) supports this modification but would not support volumetric allocation without segregation into domestic and non-domestic sectors.

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

Implementation should be as soon as possible to ensure that charges are appropriately allocated between sectors and across consumers.

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

No Comment

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

No Comment

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.*

No Comment

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

Industrial gas consumers are exposed to market cost risks as their suppliers pass on increased costs through their energy bills. Domestic customers are protected by the price cap – meaning that it is the supplier taking the market cost risk rather than the domestic consumer. The additional costs resulting from “supplier of last resort” measures result mainly from failures in the domestic market, with few industrial energy suppliers falling into difficulty. As such, it is unfair to allocate costs resulting from domestic supply issues to industrial consumers already paying market costs; therefore the MPA strongly support this proposal for market segregation.

Joint Office
Enquiries@gasgovernance.co.uk

30th December 2021

Dear Sir or Madam,

Re: 0797 (Urgent) Last Resort Supply Payments Volumetric Charges

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

NGN supports this Modification Proposal.

Reason for Support:
We support 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. The fact that this will be based on volume of gas used should result in a lower SoLR charge for some vulnerable customer groups, including those in fuel poverty.

We believe that it is appropriate that the cost of a SoLR should be recovered from the market sector that it was incurred in, and that by linking this to the end consumers usage should result in a fairer distribution of costs, thereby furthering the following Relevant Charging Objectives:

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*
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.*

We would also like to note, that this solution closer aligns recovery of SoLR costs to the electricity markets processes.

Implementation:
What lead-time do you wish to see prior to implementation and why?
Due to the timeline for publication of Distribution Network charging for 2022/23 this modification will need to be approved by Ofgem, prior to 20/01/2022, and implemented in time for costs to be applied from April 2022. As with 0687V, an interim solution will be required until the enduring solution can be implemented.

Impacts and Costs:

What analysis, development and ongoing costs would you face?

We do not see that this modification will have any material impact to NGN to implement the solution.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the Solution?

We believe that the legal text will deliver the intent of the solution.

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

Whilst we support both modification proposals currently raised relating to the distribution of SoLR costs (the other being UNC0687V), we note that this proposal looks to take into account actual usage. This has the ability to lower the figure by which bills of fuel poor customers and other low usage vulnerable customers would increase by, in comparison to larger homes and more, seemingly, financially secure customers. This therefore would appear to be a slightly better targeted, and therefore fairer, solution.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Market Services Manager (Industry Codes)
Mobile: 07580 215743

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:	Dion Tickner
Organisation:	Octopus Energy
Date of Representation:	January 4th
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** None **c)** None

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

Whilst we are supportive of the intention to provide transparency and fairness to the process for recovering Last Resort Supply Payments we are concerned that the pace of this code modification does not allow time for unintended consequences of a volumetric methodology to be fully debated and understood. We are not opposed to the concept of debating this modification however the speed at which this modification has had to be considered has led us to oppose it.

This modification was raised by a non-domestic supplier and as such it cannot be presumed that this modification would consider the impacts of a volumetric methodology on the domestic market, however it appears to be raised in relation to both the non-domestic and domestic market. It is therefore possible that there could be unintended consequences that are at risk of being missed due to the urgency of this modification.

In concept this modification will protect those who use less gas which seemingly makes the LRSP process more fair. However, suppliers have not had enough time to fully understand how this code mod works in conjunction with existing codes as well as code modifications live or in the pipeline and other mechanisms in the domestic market (such as the Price Cap).

Of greatest concern, multiple urgent code mods the industry creates a hasty solution that, although may be well intentioned, unfairly impacts consumers.

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

n/a

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

none

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

n/a

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.*

n/a

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

n/a

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:	Paul Bedford
Organisation:	Opus Energy Limited
Date of Representation:	04 January 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

We support the intent of this proposal and believe it will lead to a fairer allocation of charges between non-domestic consumers than modification UNC0687. We agree that basing the new charge type on a volumetric basis will lead to smaller gas consumers paying a more proportionate amount of charges compared with larger consumers.

We believe the modification supports Relevant Charging Methodology (a) as it is likely to result in charges that are more appropriately targeted, and which better reflect the costs from a SOLR that should be attributed to customers. We also believe that the proposal supports Relevant Charging Methodology (c), in that by allocating costs to the appropriate category of supply points, there should be less cross-subsidisation between domestic and non-domestic consumers. Additionally, a volumetric rate will more appropriately apportion costs based on consumption.

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

We believe the methodology should be implemented as soon as reasonably practicable and, in line with Ofgem's 'send back' letter, for charges to be effective from 1 April 2022.

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

No comment.

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

On reviewing the legal text provided, we note that it may not fully align with the business rules described in points 4-6 and the intent of the modification. Specifically, for 11.4 the calculation of shipper charges is not expressed as a formula.

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.*

No comment.

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

No comment.

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:	Laura Holt
Organisation:	R & L Holt Ltd & Springhill Nurseries Ltd
Date of Representation:	4th Jan 2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** Negative ** delete as appropriate* **c)** Negative ** delete as appropriate*

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

This change applies the burden of smaller gas suppliers' failure on the larger gas consumer. This is an unreasonable change as these smaller suppliers operate in the smaller supply market and therefore the costs of their failure should be borne by the small consumer – for which market these suppliers intend.

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

None

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

Significant impact in gas costs, which are already at an all time high that threatens our ongoing viability as a business. Gas costs have gone from 12.3% of our cost base to 49.42% of our cost base in the last five months comparing this year with the same period last year already just for R & L Holt Ltd.

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

no

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.*

no

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

We are struggling to pay gas costs currently as our sales to supermarkets do not reflect the true price increases of gas we are incurring in the past six months. Added to that the deadlines imposed by Ofgem to consider these amendments coincide with the Christmas and New Year holidays and that has made it difficult for all industrial/commercial consumers to respond or even know about them. Hence I suspect the response rate is lower than expected at a non holiday time of year.

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:	Mark Bellman
Organisation:	ScottishPower
Date of Representation:	4th January 2022
Support or oppose implementation?	Qualified Support
Relevant Charging Methodology Objective:	**a)** None **c)** Positive

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

ScottishPower supports the principle of cost reflectivity and believes that business customers should not be unfairly burdened with LRSP claims from Domestic suppliers

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

Apr-22 but **ONLY IF** DNOs are able to publish their rates for 2022/23 by 31 January **AND** Ofgem fully reflect the costs in the price cap applicable from Apr-22

ScottishPower has had insufficient time to fully impact assess this proposed significant change to charges

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

Systems and process costs to develop and operate validation of this new cost-type. That also requires Ofgem to ensure that the appropriate data required to so do is made available to all shippers and suppliers

All DNOs must use a common method to complete the charging statement to minimise inefficiencies in the application and validation of this new charge

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

11.1 SoLR Customer Charges are payable following receipt by a DN Operator of a valid claim

They are not “payable following receipt” of a valid claim, they are payable following invoicing by the DNO, pursuant to the DNO’s published rates (incorporating the valid claim) and terms.

"Specified Amount" is the amount specified by the supplier in the valid claim

This should be the amount approved by the Authority for the LRSP claim, not the original amount submitted by the supplier (the two can be different where the Authority rejects some elements of a supplier’s claim)

Add to 11.5 “The DNO should publish the elements of each valid claim that is recovered in each relevant year so that Suppliers can validate the charge, including for the Transitional Year, identifying that part of the valid claims already recovered previously by the DNO” or similar

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.*

No Response

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

None

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:	David Mitchell
Organisation:	Scotland Gas Networks Ltd & Southern Gas Networks Ltd
Date of Representation:	4th January 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

SGN Supports this modification proposal as it will provide a transparent allocation of charges between the domestic and non-domestic consumers. We believe that by using a volumetric approach this modification will ensure that end users' proportion of the SoLR charge is representative of their gas usage, this should result in lower charges for some vulnerable customers and fuel poor customers.

This modification supports Relevant Charging Methodology (a) as it is likely to result in charges that are more appropriately targeted, which will be reflective in the costs from a SOLR that will be attributed to either the domestic or non-domestic customers on the network as directed by the authority. We also believe that this modification facilitates Relevant Charging Methodology (c), as it will allocate costs to the relevant category of supply meter points resulting in less cross subsidisation between domestic and non-domestic consumers. As the charges in this modification are based on a volumetric approach, we believe that they will be fairer.

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

We believe that this modification should be implemented as soon as possible to provide industry parties with the certainty of the charges that will be levied.

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

No material costs to SGN have been identified from implementing this modification.

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

We are satisfied that the legal text will deliver the intent of the modification.

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.*

None identified.

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

SGN is supportive of both this modification and UNC modification 0687V that have been raised in relation to SoLR Charges. If we had to choose one modification over the other to be implemented then we would prefer 0797 to be implemented as it has the potential to lower the SoLR charge applicable to bills of vulnerable and fuel poor customers and those who may use less gas. We are also aware that the electricity market has implemented a similar volumetric SoLR charge therefore 0797 would align with this approach.

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:	Francesca Bille
Organisation:	Springhill Farms (Pershore) Ltd
Date of Representation:	4th January 2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** Negative **c)** Negative

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

I oppose the implementation as I believe the proposed change is an unreasonable burden for greater gas consumers, compared to smaller. It is partial that the suppliers who have not created this problem, face the burden of covering it up for those who have failed to participate in the market.

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

None

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

Gas prices and costs are currently at an unprecedented, historic level and my business faces difficult conversations regarding our future. Our energy costs have risen from a base level of 15% to currently 50% from the last two quarters of 2021, compared to the same time frame, pre-pandemic.

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

No.

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.*

No.

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

As a business that grows tomatoes in industrial sized glasshouses with advanced lighting and heating technologies, the increase in energy prices in recent months has hit us hard. We have had to make tough decisions which have determined the growth of our crop and ergo, our sales to retailers will decrease compared to the last FY.

Furthermore, the deadline for this consultation response being on January 4th, the first, real working day of the new calendar year, is a poor choice from Ofgem, and such I would not be surprised if the consultation response is considerably lower than what it would be if it was carried out in summer, our peak season, for example.

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:	Mark Jones
Organisation:	SSE Energy Supply Limited
Date of Representation:	04 January 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

We support UNC 0797 (Urgent) as it will provide consistency to the gas and electricity markets regarding the correct allocation of SoLR costs to the sector from which they originate. The current situation creates an inequitable cross-subsidy between the non-domestic and domestic sectors within the gas market.

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

We would like to see the modification implemented as soon as possible.

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

No significant costs have been identified by us if this modification is implemented.

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

Yes.

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.*

No.

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

UNC 0797 (Urgent) is a very similar modification to UNC 0687V, and whilst we support both modifications, we prefer UNC 0797 (Urgent) as it allocates non-domestic SoLR costs to the non-domestic sector in a more equitable manner. However, our preference is very dependent on it being able to be implemented in a similar timeframe as that planned for UNC 0687V, in order that it can be implemented for all upcoming SoLR levy costs, including those to be recovered under the faster SoLR levy process.

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:	Louise Hellyer
Organisation:	TotalEnergies Gas & Power
Date of Representation:	4 Jan 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

TotalEnergies Gas and Power are in support of modifications which are delivering the objective of the letter issued by Ofgem to target cost recovery of SoLR claims to the part of the market which generated the cost. Although a meter point charge may be closer aligned to Power models, we agree that a volumetric approach is also fair, possibly more so to low consuming domestic customers.

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

We would like to see this implemented as soon as possible to get reflected within the GDN's April 22 charging statements. This is to ensure that we do not see significant impacts to the non-domestic sector as outlined in Ofgem's recent communications in this area.

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

There would be minimal one-off costs for implementing this.

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

We have not reviewed the legal text.

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.*

No

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

No further comments.

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:	Robert Johnstone
Organisation:	Utilita
Date of Representation:	05/01/2022
Support or oppose implementation?	Oppose
Relevant Charging Methodology Objective:	**a)** None **c)** None

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

Utilita's response is 2-fold; the process and the solution.

Due to the urgent nature of this modification and the timing over the Christmas period we have not been able to give the modification the appropriate levels of consideration required, impacting the quality of input and engagement on this modification. This modification will directly impact domestic customers and the process conducted for this modification is very likely to result in a low-quality assessment and casts concerns on any decision made. Whilst the timing is unfortunate, expediting a material change on a limited quality assessment, when considering the magnitude of costs involved to be redistributed is not appropriate. Utilita support reconsideration of the modification at a later date once it has been through a more rigorous end-to-end change process.

We do not approve of the modification intention. This sort of modification to separate out industry-wide costs is usually to apply commercial incentives to rectify issues (by introducing a polluter pays style model). In this case focussing costs on to remaining domestic suppliers does not create commercial incentives nor a polluter pays model. We see no justification for a move to separating out domestic and commercial suppliers in the way proposed. Failed suppliers are a biproduct of current market conditions which this mod doesn't address.

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

We do not support implementation of this modification as proposed in the modification report. We would like to see this change revisited and diligently assessed prior to any further proposed implementation.

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

N/A

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

N/A

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.*

N/A

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

N/A

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:	Smitha Coughlan
Organisation:	WWU
Date of Representation:	4th January 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

WWU supports this modification as it more accurately apportions cost from Supplier of Last Resort (SoLR) events to the appropriate market sector.

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

The suggested timeline causes concern for WWU; specifically, around timescales for calculation of pricing models and obtaining internal governance acceptance prior to final publication of prices on the 31st January. Also of note is the modification 0687V that proposes a different solution to the issue. This modification puts additional demands on resources at an already time sensitive period.

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

To implement for April 2022 a temporary solution will be required with an enduring solution to follow. We have not done a detailed review of cost impact.

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

We have not identified anything to indicate that the legal text will not deliver the intent of the Solution; however, we do have point to make regarding the transition text. This requires a DN to process valid Supplier of Last Resort Payment claims received by 31st December 2021. We acknowledge the recently issued statutory consultation on changing the date in Standard Special Condition A48 and the letter of comfort issued by Ofgem (referenced in the modification); nevertheless, as the licence currently stands the proposed UNC text requires DNs to set charges in breach of licence. It may well be that by the date on which DNs are required to publish charges that Ofgem will have directed a change to the data in SSC A48 thereby resolving the problem.

We are raising this as we do not believe that it is good practice to have text that requires a party to breach licence even when the expectation is that this will be resolved.

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.*

No

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

We again draw attention to the restricted timescales that arise from the proposed timeline. Pricing Model calculation, data assurance and board sign off usually take a minimum of 10 workings days to achieve. Reducing this timeline increases the risk of material error in our pricing calculations.

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:	Nigel Evans
Organisation:	West Mercia Energy
Date of Representation:	4th January 2022
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	**a)** Positive **c)** Positive

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

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.*

Insert Text Here

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

Insert Text Here

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:	Ellie Rogers
Organisation:	Xoserve
Date of Representation:	04/01/2022
Support or oppose implementation?	Comments
Relevant Charging Methodology Objective:	**a)** n/a **c)** n/a

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

n/a – no comment on support or opposition of the Urgent Modification.

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

We have assessed this Urgent Modification with regards to the ability to implement a system solution such that the charges may become effective on 1st April 2022. This Urgent Modification seeks to apply a charge to each User's aggregate Non-Domestic and Domestic Peak Day position.

At the DSC Change Management Committee (ChMC), Change Managers had approved the initiation to commence work to deliver the interim solution for XRN4992 'Modification 0687 - Creation of new charge to recover Last Resort Supply Payments' in advance of any decision being received on Modification 0687.

We have assessed Urgent Modification 0797 and provided that the monthly Last Resort Charge calculation is <u>based upon a single monthly snapshot of each User's portfolio</u>, then we will be able to utilise the proposed interim solution for XRN4992. Based on this, Urgent Modification 0797, if approved and provided that the variation of XRN4992 is agreed by DSC ChMC, could be implemented such that charges from 1st April 2022 could be calculated in accordance with this Modification proposal.

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

A high-level impact assessment for the XRN4992 / Modification 0687 interim solution has been detailed as £25,000 - £50,000 to implement. As detailed above, providing the Last Resort Charge calculation for Urgent Modification 0797 is <u>based upon a single</u>

monthly snapshot of each User's portfolio, we expect to utilise the proposed interim solution for Modification 0687 / XRN4992 and therefore anticipate the indicative high-level implementation cost to be the same (£25,000 - £50,000). Please note, due to the timescales available to assess the Urgent Modification, we have not undertaken the full impact assessment for the change therefore this high-level cost is indicative only.

Please note that this cost and assessment is based on an interim solution only. To implement an enduring solution (to be delivered post 1st April 2022 if agreed by DSC ChMC), a further impact assessment of impacts and costs would be required.

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

In light of the timescales available, Xoserve have not conducted a review of the proposed legal text for Urgent Modification 0797.

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.*

n/a

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

n/a