

**UNC Workgroup 0687 Minutes**  
**Clarification of Supplier of Last Resort Cost Recovery Process**  
**Thursday 25 April 2019**  
**at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Andy Clasper	(AC)	Cadent
Brandon Rodrigues*	(BR)	ESP Utilities
Dave Addison	(DA)	Xoserve
David Mitchell	(DM)	SGN
Ellie Rogers	(ER)	Xoserve
Gareth Evans	(GE)	Waters Wye Associates Ltd
Guv Dosanjh	(GD)	Cadent
John Cooper*	(JC)	BU-UK
Kate Mulvany	(KM)	British Gas
Kirsty Dudley*	(KD)	E.ON
Mark Jones	(MJ)	SSE
Matthew Payne	(MP)	SGN
Richard Pomroy	(RP)	Wales & West Utilities
Steve Mulinganie	(SM)	Gazprom
Tracey Saunders	(TS)	Northern Gas Networks

*\*via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0687/250419>

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

## **1.0 Outline of Modification**

Gareth Evans (GE) introduced the Modification explaining that this was one of two Modifications raised by different ICoSS members in relation to Supplier of Last Resort issues. The Modification lists a number of supplier failures which have resulted in the use of the Supplier of Last Resort (SoLR) process to reallocate the customers of the failing supplier to another licence holder (SoLR supplier). He stated that the Ofgem process is to move from the failed supplier to a new supplier through an auction process.

GE advised that certain costs can be claimed by the new supplier, however this is dependant on the approach taken and some absorb some or all of the costs. He added that there have been 2 actual claims in the last 18 months with several more expected over the next year.

GE highlighted the table on page 4 of the Modification which sets out details of supplier failures including who the SoLR was awarded to by Ofgem and the costs claimed from industry. He added that this was a market wide issue including both domestic and non-domestic Suppliers. Domestic credit balances form the majority of the costs claimed from industry. GE clarified that non-domestic credit balances are not protected under the Supplier Licence Condition 9. He also stated that the claim can be dual fuel as applicable.

He then took Workgroup through the Business Rules in the solution section of the Modification explaining that pre-modification discussions had been held with pricing managers through the DNCMF Workgroup, acknowledging that Craig Neilson from Cadent Gas had been very helpful.

He stated that the intention is to create a new specific charge - the SOLR Customer Charge, with cost recovery based on market sector flags maintained by Xoserve. In response to a question from David Mitchell (DM), Dave Addison (DA) confirmed that market sector flags are a mandatory data item in UKLink during confirmation.

Richard Pomroy (RP), raised a point in relation to data errors and the accuracy of data which had been discussed at the DSC Change Committees, suggesting that E.ON did not want to use market sector codes because of accuracy issues. Kirsty Dudley (KD) clarified this stating that the concern was in relation to data cleansing issues and not inaccurate data, for these purposes market sector code should be suffice subject to maintenance of the flag. After a small debate, RP acknowledged that there was a difference of view.

Steve Mulinganie (SM) felt it was important to point out that the data was considered to be sufficiently accurate to meet the requirements of the proposal in the Modification.

Tracey Saunders (TS) sought clarification of the worked examples provided in the Modification. GE took the Workgroup through the worked example in detail explaining that the intention of the calculation is to calculate costs by market sector and there are 4 types of costs included; domestic customer, IT costs, wholesale costs and general costs.

Kate Mulvany (KM) asked if this new process had been discussed with Ofgem. GE indicated that this process is primarily focussed on the end of the process, whereas Ofgem's role is at the front end particularly in relation to due diligence activities and selecting the new supplier. He added that Craig Neilson would raise any Transporter issues with Ofgem.

DA mentioned that there was a workstream established to consider SoLR events through the work on the new Retail Energy Code (REC).

DA also asked if credit balances can be claimed by the incoming Shipper to fund costs. In response, SM reiterated that domestic customer credit balances have to be protected, however this is not the case for non-domestic.

A brief discussion took place on how the charges are recovered and whether the charge is a cost in arrears? GE explained that Transporters set the charges through the transportation charging statement which can be amended mid-year if necessary. In general, a Transporter would receive a claim, handle it and recover the costs through the next charging statement. He added that there was no intention to specify when Transporters should do this.

Mark Jones (MJ) sought clarification of how a SoLR event that happened for example a year ago would be handled and whether it would be through the new process set out in this Modification.

GE explained that any under-or-over recovery of the SoLR will be recovered via the "k" balancing mechanism and that there would be no reconciliation.

TS suggested to Xoserve that market sector codes would need to be made available in EDL file flows of daily changes received by networks.

RP asked if there would be an additional customer charge on IGT customers as the charge is applied only through Distribution Networks Operators (DNOs). GE indicated that if cost recovery was through LDZ capacity then that would have included IGTs, they are not specifically referenced.

GE asked Workgroup for their views in relation to the potential of cost recovery referred to in Ofgem's letter to Octopus Energy in relation to Iresa which was subject to SoLR in July 2018 (<https://www.ofgem.gov.uk/ofgem-publications/146747>). He sought views on how Transporters will in future handle cost recovery activity?

GE added that the Ofgem letter specifically excludes IGT from the cost recovery so a general smear recovery process if adopted would not be in line with the Ofgem direction.

Workgroup agreed that more consideration is needed to understand the implications for a SoLR and the implications in the context of insolvency law and also to fully understand the implications of the Ofgem direction.

GE then asked the CDSP for their initial views on potential system changes. DA replied to say that there were no concerns internally and that new charge types are relatively straight forward to add.

In relation to the calculation for the charge to DNOs, TS asked if the calculation is applied to the full SOLR charge to give a DNO split or whether it would be split by meter point to DNOs who would then apply the calculation against their share. GE clarified that it would be the latter.

Mark Jones (MJ) sought clarification of the LRSP process outlined on page 4 of the Modification suggesting that the first sentence is not always the case as where the Shipper is not a different organisation to the Supplier the customers are not transferred. GE agreed to remove this sentence from the Modification.

<b>New Action 0101:</b> Total Gas & Power (AG) to amend the Modification to remove the first sentence under the LRSP Process on page 4 of the Modification.
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Guv Dosanjh (GD) reminded GE that at the Panel meeting on 18 April 2019 there was discussion about the title being misleading. In response, GE confirmed that he will be looking to amend the title to make it more descriptive.

## **2.0 Initial Discussion**

### **2.1. Issues and Questions from Panel**

Bob Fletcher (BF) indicated that the Modification Panel members have asked the Workgroup to confirm if there are any licence impacts.

RP indicated that there are miscellaneous charges and clarity is needed on the licence conditions and recovery of money to be paid to the claimant.

### **2.2. Initial Representations**

None received.

### **2.3. Terms of Reference**

As matters have been referred from Panel a specific Terms of Reference have been published alongside the Modification at <https://www.gasgovernance.co.uk/0687>

## **3.0 Next Steps**

BF confirmed that the next steps are as follows:

- a. Gazprom to provide an amended Modification
- b. Xoserve to gain more understanding of the process to develop the options on an informal basis in advance of the Rough Order of Magnitude request.

RP asked if any changes will be required to UNC Section Y in relation to the Legal Text.

It was suggested that the Workgroup assessment could conclude before August.

## **4.0 Any Other Business**

None.

## **5.0 Diary Planning**

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

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Wednesday 22 May 2019	Radcliffe House, Blenheim Court, Warwick Road, Solihull, B91 2AA	Detail planned agenda items. <ul style="list-style-type: none"> <li>• Amended Modification</li> <li>• Consideration of Business Rules</li> <li>• Review of Impacts and Costs</li> <li>• Consideration of Wider Industry Impacts</li> <li>•</li> </ul>

**Action Table (as at 25 April 2019)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>0401</b>	24/04/19	1.0	Total Gas & Power (AG) to amend the Modification to remove the first sentence under the LRSP Process on page 4 of the Modification.	Total Gas & Power (AG)	<b>Pending</b>