



Statement of Last Resort Supply Payments 2019/20

July 2020



Introduction

Pursuant to Standard Special Condition A48 of the Gas Transporter Licence, this statement provides details of the payments made to Octopus Energy under the Supplier of Last Resort (SoLR) process, and corresponding collected revenue values derived from the associated increase to transportation charges made for the 2019/20 formula year.

Paragraph 11 of Standard Special Condition A48 of the Gas Transporter Licence (Last Resort Supply, Payment Claims) includes the following obligations for Gas Distribution network companies:

'The licensee shall prepare, in respect of each year in which it increases or decreases charges in pursuance of paragraph 3, 5 or 6, a statement showing –

(a) the aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 3;

(b) the aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 5;

(c) the aggregate amount of the decrease in its revenue resulting from decreases in charges in pursuance of paragraph 6, and

(d) in the case of each last resort supply payment, the aggregate payments to the claimant made in respect of the year in question (whenever those payments were made).'

(a) The aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 3

Cadent used the 'Miscellaneous Pass Through' licence term to increase allowed revenues in order to recover payments made to the claimant (Octopus Energy). The adjustments are summarised in the table below:

Network	East of England	London	North West	West Midlands	Cadent
Target 2019/20 Supplier of Last Resort revenue recovery ¹	£1,072,481	£607,925	£718,643	£524,412	£2,923,460
Estimated actual 2019/20 Supplier of Last Resort recovery ²	£1,072,971	£608,943	£717,476	£527,833	£2,927,410
To be returned to / (collected from) from Shippers in 2021/22 ³	£491	£1,018	-£1,167	£3,420	£3,762

¹ The target amount of revenue recovery by network was based on the direction letter from Ofgem. These values were then used to increase allowed revenue and consequentially increase transportation charges in 2019/20 as per paragraph 3 of standard special condition A48.

² Based on total actual collected LDZ revenue for 2019/20, we have estimated the amount of revenue recovered in relation to the SoLR claim as follows:

$$(\text{Actual LDZ Revenue Collection} / \text{Target LDZ Revenue Collection}) \times \text{Target SoLR Recovery}$$

³ The difference between target SoLR recovery and estimated actual recovery is the value that will be returned to or collected from Shippers in 2021/22 under the usual revenue collection arrangements.

(b) The aggregate amount of its revenue derived from increases in charges in pursuance of paragraph 5

Paragraph 5 of Standard Special Condition A48 states:

‘If the amount paid to the claimant under paragraph 4 is less than the specified amount, the licensee shall in the following financial year –

(a) pay to the claimant (in accordance with any directions given by the Authority) the shortfall together with 12 months’ interest thereon; and

(b) increase the charges referred to in paragraph 3 during the year following the relevant year to such extent as it reasonably estimates to be appropriate to secure that the consequential increase in its revenue equals the amount of that shortfall together with 12 months’ interest thereon.’

This is not applicable as the amount paid to the claimant was not less than the specified amount as per the target SoLR recovery value shown in the table above.

(c) The aggregate amount of the decrease in its revenue resulting from decreases in charges in pursuance of paragraph 6

Paragraph 6 of Standard Special Condition A48 states:

‘If the amount of the consequential increase mentioned in paragraph 3 exceeds the specified amount, the licensee shall, during the year following the relevant year, decrease the charges referred to in paragraph 3 to the extent that it reasonably estimates to be necessary in order to reduce its transportation revenue for that year by an amount equal to the excess together with 12 months’ interest thereon.’

Gas Distribution network companies cannot estimate total revenue recovery until the end of the relevant year has completed, as this is reliant on a full year’s transportation invoicing. The resultant over or under collection (as shown in the table above) will form part of the total LDZ recovery position for the 2019/20 formula year as reported to Ofgem in our annual Revenue RRP submission, and adjusted in our 2020/21 allowed revenue determination, inclusive of interest adjustments in full accordance with the Licence.

(d) In the case of each last resort supply payment, the aggregate payments to the claimant made in respect of the year in question (whenever those payments were made).’

Payments were made to the Octopus Energy in 12 monthly instalments, the total of which exactly matched the amount specified in the target SoLR recovery noted above.

Network	East of England	London	North West	West Midlands	Cadent
2019/20 Payments made to Octopus Energy	£1,072,481	£607,925	£718,643	£524,412	£2,923,460

This statement has been provided to Ofgem, and published on the Joint Office of Gas Transporters website in accordance with paragraph 13 of Standard Special Condition A48.

If you have any questions in relation to this statement, please contact a member of Cadent's Revenue and Pricing Team (contact details below).

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