

UNC Modification	At what stage is this document in the process?
<h1>UNC 0797:</h1> <h2>Last Resort Supply Payments Volumetric Charges</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>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.</p>	
<p>Next Steps:</p> <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> treated as Urgent and should proceed as such under a timetable agreed with the Authority as it is driven by a date related event, being the requirement for GDNs to set charges by 31 January 2022 for the year 2022/23 	
<p>Impacted Parties:</p> <p>High: Shippers, Gas Distribution Networks, CDSP, consumers</p> <p>Low:</p> <p>None:</p>	
<p>Impacted Codes: None</p>	

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Timetable			Systems Provider: Xoserve
Modification timetable:			 UKLink@xoserve.com
Modification Proposal sent to Ofgem	22 December 2021		Other: Gareth Evans
Ofgem decision on Urgency	23 December 2021		 gareth@waterswye.co.uk
Modification Proposal issued for Consultation	23 December 2021		 07500 964447
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		

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 2021¹ setting out a potential process to speed up the ability of SoLRs to make these claims, concluding on 1 December 2021² 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 increases 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 gas³ process in 2022/23, thereby meeting the requirements for being treated as Urgent⁴.

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) process⁵. 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 Methodologies⁶ 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.

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>

4 Code Specific Matters

Reference Documents

Gas Distribution Network Operator Charging Methodologies

<https://www.gasgovernance.co.uk/index.php/DNcharges>

Ofgem SoLR guidance <https://www.ofgem.gov.uk/publications-and-updates/supplier-last-resort-revised-guidance-2016>

Knowledge/Skills

As this process is reliant on the Ofgem LRSP determination process, it will be of significant benefit for Ofgem to provide some understanding of the process they undertake when approving LRSP payments.

5 Solution

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 MPRN 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)

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

Reduced environmental damage	None
Improved quality of service	None
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	None

under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	
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 Recommendations

Proposer's Recommendation

This Modification should be treated as Urgent and should proceed as such under a timetable directed by the Authority.