

Representation - Draft Modification Report UNC 0687V

Creation of new charge to recover Last Resort Supply Payments

Responses invited by: 5pm on 30 December 2021

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:	22 December 2021
Support or oppose implementation?	Support
Relevant Charging Methodology Objective:	a) Positive c) Positive

The consultation is aimed at establishing if the content/effect of the variation have caused you to change a view that you previously expressed, or to take a view that you had not previously considered. Please note any representation received in respect of Modification 0687 will be carried forward should parties not wish to change their original representation.

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 it is crucial to have a decision on cost allocation prior to the notification of final price cap allowances by February 2022 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.

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

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: What are the impacts for industry if the mandatory timeframes for changes to DN tariffs are not met?

Short notice changes to DN charges are unwelcome at any time and particularly so right now given the strain of increasing costs on consumer bills at a time when revenues are uncertain due to the uncertainties presented to businesses by the ongoing COVID pandemic. Short term changes should be avoided, and a smoothed cost recovery process over several years is preferred to the application of charges in one single formula year as currently proposed.

Alternatively, a smoothed cost recovery process would benefit both domestic consumers and businesses; network companies can play their part to help facilitate this in conjunction with regulators and officials. Recovering excess costs over the duration of a full price control period is achievable and could be treated similarly to the marginal costs allowed for network investments to allow for a more manageable cost recovery. Price controls are devised specifically to solve such cash-flow issues and could be applied similarly here to facilitate a resolution to the LRSP issue.

Q2: Based on the estimated SOLR levy costs published by DNs on 01 November 2021 which total approx. £900m (available in indicative charging statements, albeit with uncertainty, here: <https://www.gasgovernance.co.uk/indic/2022>, and an indicated split between domestic (80%) and non-domestic (20%) based on 0687, do Parties have any comments on the methodology proposed in 0687V?

The method proposed allows for more accurate cost attribution and avoids the current anomalous cross subsidy between market sectors. The method also provides the necessary clarity to allow suppliers to account for costs and to adjust cost components in their pricing models. Additionally, the clarity provided will allow Ofgem to accurately adjust the price cap allowances in the domestic market segment.

Q3: What is the impact on markets and industry of the inclusion of wholesale costs in the varied Modification 0687V?

Excess wholesale costs were not foreseen at the time when the original modification was drafted and had never been a component of any LRSP claims submitted up to that date. The excess cost allowances are both new and significant and the clarity provided in respect of the varied

modification helps market participants to estimate costs and adjust pricing models more accurately.

Q4. Do parties have any comments regarding the technical delivery of the Code solution proposed by the CDSP and under discussion at DSC Change Management Committee as detailed here: <https://www.xoserve.com/change/change-proposals/xrn-4992-modification-0687-creation-of-new-charge-to-recover-last-resort-supply-payments/>

(Note this has been progressing under the standard process through the DSC Change Management Committee since 2019, so more up to date information is available - Option 4 – interim for 01 April 2022 implementation and Option 1 enduring for future implementation).

No, but the implementation of the charging is less important than the clarity of cost attribution. Any charges can be accrued for should there be a delay to the implementation of the new charge.

Q5: What is the impact on industry of the timeline of this Modification?

<i>Consultation close out 5pm</i>	<i>30/12/21</i>
<i>FMR to Panel for reading</i>	<i>05/1/22</i>
<i>Panel consideration</i>	<i>12/1/22</i>
<i>FMR to Ofgem</i>	<i>12/1/22</i>
<i>Ofgem decision expected</i>	<i>20/1/22</i>
<i>Deadline for publication of DN charges</i>	<i>31/1/22</i>

The timeline is driven by both domestic price cap and DN charge formal notification protocols if excess charges are to be recovered in the next charging year. An early decision allows for the necessary certainty to all market participants.

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

NA