

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:	Gareth Evans
Organisation:	ICoSS
Date of Representation:	20 th 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)

Further to our consultation response to UNC Modification 0687V from September 2019, we continue to support the concept of aligning the gas market with the electricity market with regard to the treatment of SoLR costs. 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.

UNC Modification 0687, as originally drafted, was a pragmatic solution to ensure a timely delivery of a solution to apportion the majority of costs arising from LRSP claims to the correct market sector. We agree that extending the scope of the proposal to cover all LRSP costs, not just those from refunding domestic credit balances, will further relevant objective a) and c) to a greater degree than the original proposal, as it improves cost targeting to a greater degree and provides a more robust solution.

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.

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?

The current notification process for changing DN tariffs is well-established and provides certainty to suppliers when determining transportation costs for their customers. Compressing the existing short notice period and/or undertaking mid-year transportation charge adjustments create disruption and uncertainty for customers, during a period where stabilising costs for customer is vital. As a result, we would be concerned if the current timescales for setting DN charges was not adhered to, and so this modification must be approved in a timely fashion to avoid this.

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?

GDNs are currently proposing to recover approximately £900m to cover LRSP costs arising from the unprecedented number of Domestic Supplier business collapses during the 2nd half of 2021. These costs are expected to be approved by Ofgem under a “fast track” process in time for recovery in gas transportation charges from 1 April 2022.

UNC Modification 0687 was raised to ensure that the gas market aligned itself with the equitable process already followed in the electricity market, namely non-domestic customers do not subsidise failures in the domestic sector, and vice versa. If this modification is not approved then non-domestic customers will be charged hundreds of millions of pounds of domestic costs. This will place significant pressure on non-domestic customers already suffering the effect of high gas prices and the continuing pandemic, and will put some out of business.

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

To remove any cross subsidy between market sectors, wholesale costs should be included when determining how LRSP costs are recovered from domestic or non-domestic customers. Expanding UNC Modification 0687 to include wholesale costs into the new SoLR customer charge will improve cost targeting and so further the relevant objectives a) and c).

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).

We have not reviewed the technical solution in detail, though we do not believe that the modification should be delayed simply to allow a full system solution to be delivered. An interim process for providing ad-hoc invoices to reflect the modification should be utilised if a full solution is not ready for 1 April 2022.

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

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

The timescale for delivery is reasonable in light of the need to prevent a significant cross-subsidy between the domestic and non-domestic markets from pending LRSP claims. We believe that suppliers can accommodate such a timescale in their customer price setting.

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