

Joint Office

[Enquiries@gasgovernance.co.uk](mailto:Enquiries@gasgovernance.co.uk)

30<sup>th</sup> December 2021

Dear Sir or Madam,

**Re: 0687V Creation of new charge to recover Last Resort Supply Payments**

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

**NGN supports this Modification Proposal.**

**Reason for Support:**

We support this Modification Proposal as the introduction of a new Supplier of Last Resort (SoLR) Customer Charge should provide a fairer distribution of recovery of allowed costs associated with a SoLR event.

We believe that it is appropriate that the cost of a SoLR should be recovered from the market sector that it was incurred in and believe this furthers the following Relevant Charging Objectives:

- 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*
- 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.*

We would also like to note, that this solution closer aligns recovery of SoLR costs to the electricity markets processes.

**Implementation:**

*What lead-time do you wish to see prior to implementation and why?*

Due to the timeline for publication of Distribution Network charging for 2022/23 this modification will need to be approved by Ofgem, prior to 20/01/2022, and implemented in time for costs to be applied from April 2022. In order to be able to apply these charges from April 2022, an interim solution will be used until the enduring system solution can be implemented.

**Impacts and Costs:**

*What analysis, development and ongoing costs would you face?*

We do not see that this modification will have any material impact to NGN to implement the solution.

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## Legal Text:

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

Whilst we are satisfied that the legal text will deliver the intent of the solution, we have a concern as to assumptions made: Further comments under 'additional information'

## Modification Panel Questions:

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

Should the timeline as stated under 'Implementation' above, not be achieved, by this, or any other related modification proposal, then the charging will remain as current, with the cost of each SoLR being smeared across both domestic and non-domestic consumers, regardless of sector it originated from.

*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?*

and

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

We believe that this modification, which includes all claimed cost associated with the SoLR, not just credit balances, will result in the majority, if not all, of this estimated levy being borne by the domestic consumer base. Whilst this will result in an increased cost to this sector (in relation to the original 0687 proposal) we feel that this is a more correctly targeted charge in relation to the customer base of the current supplier failures.

*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 believe that this is being managed in accordance with the correct process, and that the technical solutions (interim and enduring) proposed will be able to deliver the modification solution.

*Q5: What is the impact on industry of the timeline of this Modification?  
Consultation close out 5pm 30/12/21*

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<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 timelines for this varied proposal have resulted in the solution having less discussion and analysis by industry than would normally have been the preferred case, however we feel that CDSP and networks have completed a thorough analysis to ensure that this can be delivered, correctly, within the timeframe. As a result of the condensed timeframe an interim solution will be used until the final enduring solution can be implemented into central systems.

Whilst this timeline is less than ideal, and it would have been preferred to have received a decision in relation to 0687 earlier, to allow industry more time to consider and develop 0687V, we agree that it is appropriate given the current unprecedented volume of SoLR claims that will be being socialised across the energy market.

We would like to stress that delivery of this modification for the coming financial year will be dependent on Ofgem publishing their decision no later than 20/01/2022.

**Please provide below any additional analysis or information to support your representation**

This modification proposal relies on Ofgem advising the distribution networks of the split between domestic and non-domestic when instructing the recovery of the SoLR charges which is an obligation that does not already exist. The UNC cannot place an obligation onto The Authority, therefore, whilst this proposal is appropriate for the coming financial year, we believe a further modification proposal will need to be raised to confirm the process should Ofgem choose not to advise of this split.

Whilst we believe it is appropriate for the costs to be borne by the market sector that incurs them, this proposal splits the costs evenly between all meter points within the sector, without taking into account actual usage. This appears to increase the annual bills of fuel poor customers and other vulnerable customers, by the same amount as larger homes and more, seemingly, financially secure customers.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)  
Market Services Manager (Industry Codes)  
Mobile: 07580 215743

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