

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:	Claire Louise Roberts
Organisation:	ScottishPower
Date of Representation:	30 th December 2021
Support or oppose implementation?	Qualified 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 opposition: Please summarise (in one paragraph) the key reason(s)

ScottishPower agrees in principle what this modification seeks to achieve, we are fully supportive on the future SoLR charges being allocated across **Domestic** and **Non-Domestic** segments. There were 28 failed suppliers during 2021 and almost all of them had very few Non-domestic customers.

The current SoLR process does not allow for recovery for Non-Domestic of credit balances so this would be very unfair to apply recovery against this segment.

We are again fully supportive of allocating the same charge for each area rather than at individual DNO area, as many of the costs that are being recovered relate to credit balances and other costs which have no relevance to their area (**We agree with example provided by Eon in their consultation response**).

However, we would like to provide qualified support for implementation of this modification on the grounds of the additional burden on Domestic consumers and increased cash-flow pressure on Domestic suppliers (recovery in the same period that it's being billed to customers has a negative cash-flow impact for credit customers). If Ofgem approves implementation of this modification for 1st April 2022 the impacts of increased LRSP recovery from Domestic segment will aggravate the effects of expected price rises on the consumer. The original modification was raised in 2019 during which time SoLR's were less frequent and the current market conditions were very different.

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

It is in our opinion this should be split into two parts, we would recommend implementation for the 2021 SoLR's and then returned to workgroup for further analysis and discussions.

The original modification was raised in 2019 during which time SoLR's were less frequent and the current market conditions were very different. We believe a thorough impact assessment should be completed in line with the current Energy Market conditions, to ensure Industry parties are fully aware of the impacts on the domestic consumer and the enduring solution is robust and fit for purpose.

We would also seek clarification that there is no retrospective application to this modification if the implementation is at a date later than 1 April 2022 **Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

ScottishPower has not had the opportunity to fully impact assess both solution options, however it is anticipated there will be a cost associated to implement both solutions whether it be resources and/or system changes.

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

We have no comments on the legal text at this time but if we come up with any, we will raise them immediately.

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?

No comment

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?

It is likely there is a further £2bn of SoLR costs coming down the line, so ScottishPower are fully supportive of a new clear line item reflecting this charge, enabling clear review and reconciliation of the charge.

In line with comments provided previously by British Gas and Npower it is essential that the **Price Cap Methodology** and **supporting Annex** is adjusted to allow for this separate charge item.

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

No comment

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).

There is so much change going in the Industry right now and industry parties are already facing additional pressure of the current energy market conditions and adding more changes to an already congested landscape will only add to this. It's in our opinion this is returned to workgroup for further analysis.

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 timeline of this modification is very tight, it's been issued at short notice and over a Christmas period when key stakeholders are on leave. We appreciate the urgency of the modification however, it does not allow sufficient time to review all documentation fully and impact assess the potential burden on Domestic consumers and calculate the amount of increased cash flow needed.

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.*

We would like to note that whilst the consultation on page 4 refers to the majority of such claims being in relation to credit balances, based on current market conditions and the multiple failed suppliers this statement is outdated, *the majority of the forthcoming SoLR recovery costs will relate to wholesale costs, with credit balances following thereafter.*

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

We would like clarification on the worked example on page 6. We thought the principle of allocating the LRSP was using the failed supplier meter points in the worked example, would this not suggest that the allocation to Domestic should have been £4.5m and Non-

Domestic £0.5m based on the 9k Domestic and 1k Non-Domestic meter points of Suffolk Energy?