

UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0809S:</h1> <h2>Distribution of Last Resort Supplier Payment (LRSP) claims to include IGT sites</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid green; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid blue; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid blue; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid purple; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid purple; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid orange; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid orange; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>To add clarity to code specifying that charges resulting from the Supplier of Last Resort (SoLR) are distributed to all end supply meter points, regardless of whether on an Independent Gas Transporter (IGT) Connected System Exit Point (CSEP) or directly connected to a Distribution Network (DN).</p>	
<p><b>Next Steps:</b></p> <p>The Workgroup recommends that this Modification should be subject to Self-Governance          The Panel will consider this Workgroup Report on 21 July 2022. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
<p><b>Impacted Parties:</b> <i>It should be noted that any impact is in relation only to clarity, as there is no actual change to code and therefore obligations or impacts.</i></p> <p>High: IGTs, Consumers          Low: Shippers, Suppliers, DNOs          None: NTS</p>	
<p><b>Impacted Codes:</b></p> <p>Whilst this proposal adds clarity around how the IGTs CSEP Supply Meter Points are treated; how LRSP payments are managed is dealt with under the UNC, therefore there is no required change to the IGT UNC. No other cross code impacts have been identified.</p>	

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<b>Modification timetable:</b>	
Pre modification (Distribution Workgroup)	28 April 2022
Date Modification Raised	01 June 2022
New Modification to be considered by Panel	16 June 2022
First Workgroup Meeting	23 June 2022
Workgroup Report to be presented to Panel	21 July 2022
Draft Modification Report issued for consultation	21 July 2022
Consultation Close-out for representations	11 Aug 2022
Final Modification Report available for Panel	12 Aug 2022
Modification Panel decision	18 Aug 2022

 Any questions?

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## 1 Summary

### What

Urgent UNC Modification 0797 (Last Resort Supply Payments Volumetric Charges) was approved by The Authority in January 2022. Modification 0797 created a new charge type to pass Last Resort Supply Payments (LRSP) charges from Gas Distribution Network Operators (DNO) to Shippers based on the originating market sector using a volumetric unit rate charging methodology.

Modification 0797 solution was based on a system design developed for Modification 0687V (which was rejected for implementation). This has resulted in the approved Modification 0797s' original system solution being aligned to the solution build for 0687V, which did not include IGT CSEPs Supply Meter Points in the way the LRSP costs are distributed back through the industry supply chain. This proposed Modification 0809 amends the system build to ensure that charges are shared to all relevant Supply Meter Points, including those contained in an IGT CSEP, for 2023/2024 DN charging year onwards.

For the current DN charging year Ofgem have issued a letter<sup>1</sup> to all IGTs, dated 11 March 2022, which provides consent for IGTs to recover LRSP claims via their Transportation Charges. This will, in turn, result in a price change being applied by the DNOs from October 2022 reducing the LRSP part of DNO charges to take into account the IGT recovery value. The intent being that by the end of the 2022/2023 DN charging year all end Supply Meter Points, for the relevant market sector, will have had the same value applied. Ofgem have also issued an open letter<sup>2</sup> dated 20 April 2022 consulting on three options for the recovery for the current year.

The above-mentioned consent by Ofgem is an interim measure, without which the Supply Meter Points which are directly connected to the DNs would bear the entire share of costs, with Supply Meter Points that are connected via an IGT network bearing none of the cost; resulting in a cross subsidy against DN connected Supply Meter Points. The above-mentioned open letter also advises what the preferred solution is for the enduring solution for 2023/24 onwards, being that the LRSP claims to be paid only by DNs. This proposed Modification proposal adds clarity in line with this preferred enduring solution.

The system changes will be in place for the 2022/2023 DN charging year onwards. UNC does not specifically exclude these charges being shared across all Supply Meter Points, including IGT CSEPs, and prior to the current solution as being introduced by Modification 0797, IGT CSEPs have also paid their fair share of LRSP costs through DNO prices. This proposed Modification proposal 0809 adds clarity to UNC around the fact that the new methodology, introduced by Modification 0797, will continue to include IGT CSEP Supply Meter Points.

### Why

All customers, whether connected via to an IGT CSEP or directly connected to a DN are afforded the same protection in the event of a SoLR appointment. Therefore, it is only fair that all customers, whether connected via to an IGT CSEP or directly connected to a DN, bear the costs of the impact of any SoLR events equally.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications/recovery-igts-last-resort-supply-payment-lrsp-claims-arising-failed-suppliers>

<sup>2</sup> <https://www.ofgem.gov.uk/publications/recovery-gas-transporters-last-resort-supply-payments>

## How

This proposed Modification is looking to add clarity to the existing UNC to confirm that LRSP is recovered from all relevant Supply Meter Points including when connected via an IGT CSEP.

This proposed Modification is only adding additional clarity, and therefore we believe it could be sent to 1 workgroup for transparency, so that all parties have clarity around how these Charges are processed. This is in part due to the volume of SoLRs that have been experienced in the past year, which has in 2022/2023, and will continue to for 2023/2024, resulted in a high value of LRSP claims that are being passed through, (circa £900m for gas<sup>3</sup> process in 2022/23).

*For the avoidance of doubt, this Modification does not look to make any changes to the split between domestic and non-domestic recovery.*

## 2 Governance

### Justification for Self-Governance

This Modification does not make any material changes to UNC, it only adds clarity to the existing Code.

### Requested Next Steps

This Modification should:

- be considered a non-material change and subject to Self-Governance.
- proceed to Consultation.

*It should be noted that The Authority are supportive of any additional clarity in relation to their preferred enduring solution, around the fact that all relevant MPRNs are treated equally in relation to LRSP charges; this Modification proposal aligns with this intent. Should Ofgem announce that they are no longer looking to proceed with their preferred enduring solution, the proposer confirms that this Modification will be withdrawn.*

### Workgroup's Assessment

Some Workgroup participants believed that this Modification does not meet the Self Governance criteria because it deals with a large sum of money and is based on an Ofgem letter relating to the current year, so it follows that Ofgem should direct this Modification too.

Some Workgroup participants noted the wording in the Ofgem letter (see extract below) which may indicate Ofgem wish to consider the Modification themselves.

This letter sets out our decision for the interim solution. Industry has raised a uniform network code (UNC) modification<sup>5</sup> which seeks to address the enduring solution. Ofgem will consider the UNC modification in due course.

Workgroup considered that a consultation question regarding governance may be appropriate in this case.

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<sup>3</sup> <https://www.gasgovernance.co.uk/indic/2022>

### 3 Why Change?

All customers, whether connected via an IGT CSEP or directly connected to a DN are afforded the same protection in the event of a SOLR appointment. Therefore, it is only fair that all customers, whether connected via an IGT CSEP or directly connected to a DN, bear the costs of the impact of any SoLR events equally.

#### Current DN charging year:

Due to the alignment of Modification 0797 (Creation of new charge to recover LRSPs) to the build for (rejected) Modification 0687V (Creation of new Charge to recover Last Resort Supply Payments) this had initially resulted in relevant MPRNs that are connected via an IGT not being included in the meter point count for the calculation of charges, nor for the charges to be passed on to these customers via the IGTs. The result is the current system, which is not aligned with how LRSP charges have previously been recovered, has not only resulted in a higher charge per MPRN (due to the same value being divided between fewer MPRNs) but has also resulted in a different treatment of end consumers depending on whether they are connected directly to a DN, or via an IGT.

The system changes (under XRN 4992b) are due to be implemented ensuring that charges are shared to all relevant MPRNs, including IGT CSEP, for 2023/2024 DN charging year onwards. Note that XRN4992b is not dependant on this Modification 0809.

As mentioned above, Ofgem have issued a letter to all IGTs, providing consent for IGTs to recover LRSP claims via their Transportation Charges for the current DN charging year. Ofgem have consulted on options for this, stating their preferred solution is an in-year price change being applied by the DNs from October 2022 reducing the LRSP part of DN charges to take into account the IGT recovery value. The intent being that by the end of the 2022/2023 DN charging year all end meter points (MPRNs), for the relevant market sector, will have had the same value applied. The approach for the current year is stated in the June 2022 letter from Ofgem<sup>4</sup> below. Please note this Modification does not look to impact the current year, this information is only provided for context.

The above mentioned consent to IGTs by Ofgem is an interim measure, without which the MPRNs which are directly connected to the DNs would bear the entire share of costs, with MPRNs that are connected via an IGT bearing none of the cost; resulting in the total cost being split between fewer MPRNs causing the DN connected MPRNs receiving a higher charge, whilst the IGT connected MPRNs receive no charge, whilst still being afforded the same protection in the event of a SoLR.

#### DN charging year 2023/24 onwards

The decision letter from Ofgem<sup>4</sup> states *'This letter sets out our decision for the interim solution. Industry has raised a uniform network code (UNC) modification (0809) which seeks to address the enduring solution. Ofgem will consider the UNC modification in due course.'*

The new system changes (XRN 4992b<sup>5</sup>) will be in place for the 2023/2024 DN charging year onwards. These allow for the recovery of the LRSP charges to include all relevant supply points including IGT supply points. This is aligned with how LRSP costs were recovered prior to as the implementation of UNC Modification 0797. With Ofgem's open letter<sup>1</sup> above to IGTs ensuring that IGT supply points also pay towards LRSP in the current year, there will be consistency relating to whether IGT supply points pay towards LRSP charges in prior, current and future years.

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<sup>4</sup> <https://www.ofgem.gov.uk/publications/decision-letter-about-recovery-last-resort-supply-payment-claims-customers-connected-gdn-and-igt-networks>

<sup>5</sup> <https://www.xoserve.com/media/43295/xrn4992b-detailed-design.docx>

We feel it is best practice to ensure that UNC is explicit in this matter, providing clarity and certainty which we believe is beneficial to all interested parties: Therefore, this Modification proposal 0809 adds clarity to UNC around the fact that the new methodology, that was introduced by Modification 0797, will continue to include IGT Supply Points and, if implemented, will remove any potential ambiguity in the interpretation.

## 4 Code Specific Matters

### Reference Documents

UNC and DNO Charging statements.

### Knowledge/Skills

Knowledge of UNC, (including section Y part B – DN charging methodology), Licence conditions in relation to LRSP payments.

Awareness of the letters from Ofgem in relation to the IGT LRSP charges (see footnotes on prior pages).

## 5 Solution

### Change to UNC for clarity

TPD Section Y Charging Methodologies

Part B – DN Transportation Charging Methodology

**Amend following definitions in paragraph 11.3 to give additional clarity.**

<ul style="list-style-type: none"> <li>○ DSP is the number of <del>Supply Points, including IGT Supply Points,</del> on a DN Operator's System on the Relevant Date where the Supply Point Premises are Domestic Premises ("Relevant DSP Sites");</li> <li>○ TSP is the total number of <del>Supply Points, including IGT Supply Points,</del> on a DN Operator's System on the Relevant Date;</li> <li>○ NDSP is the number of <del>Supply Points, including IGT Supply Points,</del> on a DN Operator's System on the Relevant Date where the Supply Point Premises are Non-domestic Premises ("Relevant NDSP Sites");</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: LDZ System Exit</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: CSEP meter</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders June 15, 2022 Deleted: points</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: LDZ System Exit</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: CSEP meter</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: points</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: LDZ System Exit</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: CSEP meter</td> </tr> <tr> <td style="padding: 2px;">Tracey Saunders Deleted: points</td> </tr> </table>	Tracey Saunders Deleted: LDZ System Exit	Tracey Saunders Deleted: CSEP meter	Tracey Saunders June 15, 2022 Deleted: points	Tracey Saunders Deleted: LDZ System Exit	Tracey Saunders Deleted: CSEP meter	Tracey Saunders Deleted: points	Tracey Saunders Deleted: LDZ System Exit	Tracey Saunders Deleted: CSEP meter	Tracey Saunders Deleted: points
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## 6 Impacts & Other Considerations

**Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

No

## Consumer Impacts

This Modification gives clarity around impacts to end consumers around ensuring that all relevant Supply Meter Points, regardless of whether connected directly or via an IGT CSEP, are treated the same with reference to the passthrough of LRSP charges incurred by SoLR events.

### What is the current consumer experience and what would the new consumer experience be?

This Modification adds clarity to the UNC that all relevant Supply Meter Points, whether directly connected to the DN or connected via and IGT CSEP are treated equally in relation to LRSP costs.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
<p>Improved safety and reliability</p> <p>N/A</p>	None
<p>Lower bills than would otherwise be the case</p> <p>Should the system build not have been aligned with code and the pre 0797 build in relation to recovery of charges, this would have resulted in a higher charge to the DN connected Supply Meter Points. This modification adds clarity around charges being applied equally to both DN connected and IGT CSEP Supply Meter Points</p>	Positive
<p>Reduced environmental damage</p> <p>N/A</p>	None
<p>Improved quality of service</p> <p>This clarifies that relevant Supply Meter Points are treated equally with reference to the passthrough of LRSP claims, which aligns to the equal treatment the associated customers are afforded under the SoLR regime.</p>	Positive
<p>Benefits for society as a whole</p> <p>N/A</p>	None

## Cross-Code Impacts

Whilst this proposal adds clarity around how the IGTs CSEP Supply Meter Points are treated; how LRSP payments are managed is dealt with under the UNC, therefore there is no required change to the IGT UNC.

## EU Code Impacts

None.

## Central Systems Impacts

The CDSP will be required to be able to process LRSP claims through to all relevant MPRNs, regardless of whether DN connected or via IGT CSEP, 2023 DN charging year onwards. This is being managed as part of the system design for Modification 0797 under XRN 4992b<sup>5</sup> above

## Rough Order of Magnitude (ROM) Assessment

No ROM required for this Modification as the Change is already covered by XRN 4992b (for Modification 0797).

## Panel Questions

No specific questions raised.

## Workgroup Impact Assessment

Workgroup heard clarification that the Modification is to be effective from the Regulatory Year (or DN Charging Year) i.e. from April 2023 onwards (not Gas Year).

Link to Ofgem letter: <https://www.ofgem.gov.uk/publications/decision-letter-about-recovery-last-resort-supply-payment-claims-customers-connected-gdn-and-igt-networks>

The Ofgem letter contains reference to the Proposed Modification, the letter sets out the approach and this Modification implements it from 01 April 2023.

Workgroup heard from the Proposer that there are no performance assurance impacts.

Workgroup considered whether the Modification is suitable for Self-Governance noting that the Modification is implementing what is set out in Ofgem's letter.

The Modification maintains the status quo (as directed by Ofgem) which is that IGT will continue to be charged. Without this Modification it is unclear in Code, however the system change is in process because it is associated with Modification 0797 which continues to allocate charges to IGTs. This Modification formalises the change and provides certainty going forward.

Some Workgroup Participants believed that this Modification does not meet the Self Governance criteria because it deals with a large sum of money and is based on an Ofgem letter relating to the current year, so it follows that Ofgem should direct this Modification too.

Some Workgroup participants noted the wording in the Ofgem letter which may indicate Ofgem wish to consider the Modification themselves.

This letter sets out our decision for the interim solution. Industry has raised a uniform network code (UNC) modification<sup>5</sup> which seeks to address the enduring solution. Ofgem will consider the UNC modification in due course.

Workgroup considered that a consultation question regarding governance may be appropriate in this case.



## 7 Relevant Objectives

### Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of <ul style="list-style-type: none"> <li>(i) the combined pipe-line system, and/ or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters.</li> </ul>	None
c) Efficient discharge of the licensee's obligations.	<b>Positive</b>
d) Securing of effective competition: <ul style="list-style-type: none"> <li>(i) between relevant shippers;</li> <li>(ii) between relevant suppliers; and/or</li> <li>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</li> </ul>	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	<b>Positive</b>
g) 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

### Section Y (Charging Methodology) Modifications

#### 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;	<b>Positive</b>
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> <li>(i) no reserve price is applied, or</li> <li>(ii) that reserve price is set at a level -                             <ul style="list-style-type: none"> <li>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</li> <li>(II) best calculated to promote competition between gas suppliers and between gas shippers;</li> </ul> </li> </ul>	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	None
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
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

Relevant objective f) *Promotion of efficiency in the implementation and administration of the Code* is furthered by both adding clarity to UNC, and by the alignment of CDSP systems.

Relevant objective c) *Efficient discharge of the licensee's obligations* and relevant charging objective 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* are furthered as it under licence Distribution Networks are to remain cost neutral in relation to LRSP claims, and are to pass these costs through to the relevant customer base (as directed by Ofgem) in accordance with Standard Special Condition A48 of the DN operator's Transporters Licence. This is based on the principle that all end Supply Meter Points, whether directly connected to the DN, or via an IGT CSEP are treated equally under the SoLR regime, so equally bear the cost of any valid LRSP claims.

### Workgroup Assessment of Relevant Objectives

Workgroup Participants agreed with the Proposer's views expressed above.

## 8 Implementation

To avoid confusion in relation to the open letter from Ofgem around consent for IGTs to recover during the current DN charging year, it is suggested that this Modification has an effective implementation date no sooner than 01 April 2023.

## 9 Legal Text

Legal Text has been provided by Northern Gas Networks and is included below.

### Text Commentary

The text will provide clarity of terminology to align with existing UNC defined terms, The addition of 'including IGT Supply Point' will give clarity in code that these are included.

### Text

#### Change to UNC for clarity

TPD Section Y Charging Methodologies

Part B – DN Transportation Charging Methodology

**Amend paragraph 11.3 as shown below.**

11.1 SoLR Customer Charges are payable following receipt by a DN Operator of a valid claim (as defined in Standard Special Condition A48 of the DN Operator's Transporter's Licence ("**Condition A48**")) from a supplier.

11.2 In respect of a valid claim:

- (a) "**Relevant Date**" is the date of the Authority's last resort supply direction to the supplier who submitted the valid claim;
- (b) "**Specified Amount**" is the amount specified by the supplier in the valid claim.

11.3 In respect of a Specified Amount, the "**Domestic Component**" and the "**Non-domestic Component**" are the amounts notified to a DN Operator by the Authority, or in the absence of such notification:

(a) the Domestic Component is:

$$SA * (DSP / TSP)$$

where:

SA is the Specified Amount;

DSP is the number of ~~LDZ System Exit~~Supply Points, including IGT CSEP meter ~~p~~Supply Points, on a DN Operator's System on the Relevant Date where the Supply Point Premises are Domestic Premises ("**Relevant DSP Sites**");

TSP is the total number of ~~LDZ System Exit~~Supply Points, including IGT CSEP meterSupply ~~p~~Points, on a DN Operator's System on the Relevant Date;

(b) the Non-domestic Component is:

$$SA * (NDSP / TSP)$$

where:

NDSP is the number of ~~LDZ System Exit~~Supply Points, including IGT CSEP meterSupply ~~points~~Points, on a DN Operator's System on the Relevant Date where the Supply Point Premises are Non-domestic Premises ("**Relevant NDSP Sites**");

and where SA and TSP have the meaning in paragraph (a).

11.4 Each Shipper User shall pay a DN Operator SoLR Customer Charges in the Relevant Year the unit rate for which shall be calculated separately for Relevant DSP Sites and Relevant NDSP Sites by reference to:

- (a) for Relevant DSP Sites, the Domestic Component (expressed in pence) and the aggregate peak day SOQ for all Relevant DSP Sites;
- (b) for Relevant NDSP Sites, the Non-domestic Component (expressed in pence) and the aggregate peak day SOQ for all Relevant NDSP Sites.

11.5 SoLR Customer Charges shall be calculated separately for each valid claim received by a DN Operator; provided for the purposes of invoicing the DN Operator may aggregate such charges where SoLR Customer Charges in respect of more than one valid claim are payable by Shipper Users in the same Relevant Year.

11.6 The "**Relevant Year**" is the year (as defined for the purposes of Condition A48) in respect of which a DN Operator is, following receipt of a valid claim, entitled to increase its transportation charges pursuant to Condition A48.

## 10 Recommendations

### **Workgroup's Recommendation to Panel**

The Workgroup asks Panel to agree that this Self-Governance Modification should proceed to consultation.