

UNC Panel Chair, UNC Panel
Members, gas transporters, gas
shippers, and other interested
parties

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Date: 07 December 2021

Dear Panel,

Minded-to position and Authority decision to 'send back' Uniform Network Code ("UNC") 687 ("UNC687"): 'Creation of new charge to recover Last Resort Supply Payments

On 17 October 2019, the UNC Panel reviewed the updated legal text and voted unanimously to recommend UNC modification proposal UNC687: 'Creation of new charge to recover Last Resort Supply Payments' to the Authority for implementation.

In principle, we agree with what the modification is designed to achieve, as it aligns with our policy intention to allocate Supplier of Last Resort (SoLR) costs to the market sector from which they originate. However, we consider that the Legal Text would require further changes that the Panel will need to address before we can form an opinion as to whether the modification would better facilitate the relevant objectives.

Background and reasons for send back

Following our 'send back' decision¹, which was published on 9 October 2019, the UNC Panel reviewed the associated legal text and re-submitted a revised Final Modification Report (FMR) to us on 17 October 2019. With the recent developments in the energy sector, we

¹ [Authority decision to 'send back' Uniform Network Code \("UNC"\) 687 \("UNC687"\): 'Creation of new charge to recover Last Resort Supply Payments' | Ofgem](#)

have seen more suppliers failing and on 1 December we published a decision on temporary changes to the process for a SoLR to make a claim for a Last Resort Supply Payment. This has highlighted the need to ensure that SoLR costs are recovered from the relevant consumers. We have reviewed this proposal and provide our minded-to position below. We will consider the revised FMR once received.

Our minded to position

The rationale of the modification to allocate the SoLR costs to the market sector from which they originated aligns with our policy intention on charging arrangements. Nevertheless, the UNC Panel will need to update the Legal Text to reflect the current version of the UNC, as we have identified two main issues.

1. UNC Legal Text Baseline

The baseline of the Legal Text has been amended since the modification was sent to the Authority. The approval of other modifications has altered the relevant legal text sections. As a result, we are unable to form an opinion on whether or not the modification better facilitates the relevant objectives without additional clarity on the changes proposed to the current baseline.

2. Additional clarity on the solution

Having reviewed the proposed solution, we are concerned that the proposed solution might not fully bring the benefits it is expected to. Specifically, as currently drafted the wholesale cost component of the SoLR levy (as included in the temporary changes to the process) would not be exclusively allocated to domestic customers, but it would be allocated according to the respective share of the failed supplier's customer numbers at the time of the SOLR transfer.

We appreciate that these two items mentioned above on the Legal Text cannot be addressed unless we send the modification back to the Panel. Our view is that sending back the modification should allow a full review of the legal text, in accordance with the UNC processes.

We are therefore sending the proposal back to industry for the UNC Panel to revise the Legal Text at its next meeting, and subject to their recommendation to resubmit the FMR to the Authority. We would like to determine the revised FMR as soon as possible, so that in case we approve it, the modification can be implemented from 1 April 2022. Therefore, we expect the UNC to expedite progression of this modification as soon as possible and in line with gas governance processes.

We understand that if the modification is approved, the retail price cap methodology would need to be amended to reflect the changes. As such, and in the interest of time, we will publish a consultation on that, seeking stakeholders' views. We expect to make a final decision on both in time for the price cap publication.

Direction

In accordance with paragraph 15(b)(ii) of Standard Special Condition A11 of the Gas Transporter Licence, we direct that the UNC Panel reviews the Legal Text of UNC687 as a matter of urgency based on the points above and determines on whether UNC687 should be recommended to the Authority on that basis.

After addressing the issues identified above and revising the FMR accordingly, the revised FMR should be re-submitted to the Authority for a decision as soon as practicable.

Yours sincerely

Anna Rossington
Deputy Director, Retail