

Independent Gas Transporters and other
interested parties

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Recovery of Last Resort Supply Payment (LRSP) claims arising from failed suppliers through customers connected to IGT networks

This letter relates to recovery of Last Resort Supply Payment (LRSP) claims arising from failed suppliers by Independent Gas Transporters (IGTs)¹ who are licensed by the Authority².

Background

The unprecedented and unexpected rise in gas and electricity prices over recent months has put energy markets under severe strain. When a supplier fails, the only routes by which Ofgem can protect customers from significant harm is through the Supplier of Last Resort (SoLR) process³, or, where this is not possible, through the Special Administration Regime (SAR).

The SoLR process allows the SoLR taking on customers to claim their net costs of doing so via the Last Resort Supply Payment (LRSP).⁴ Historically some SoLRs have waived their right to make that claim through the SoLR bidding processes. Recent SoLRs have not waived those rights as the recent costs associated with becoming a Supplier of Last Resort have been significant. Indeed, in order to keep the SoLR process working, Ofgem has had to speed up the levy process and the high wholesale gas prices have led to very significant SoLR levy claims, some of which we approved in December 2021.⁵

The way in which SoLR levies are socialised across energy consumers and paid to the SoLR means that those significant costs have been included in electricity and gas distribution charges for 2022/23.

The network licences require that Gas Distribution Networks (GDNs) and electricity distribution networks pay a valid LRSP claim presented by a SoLR.

¹ Independent Distribution Networks are those distribution networks who have Section B of the electricity licence switched off.

² References to 'the Authority', 'Ofgem', 'we' and 'our' are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

³ Customers could face various significant harms, ranging from loss of credit balances to interruptions to supply to, ultimately, wider instability in the network and wholesale markets.

⁴ Further details are available in our 'Guidance on supplier of last resort and energy supply company administration orders' here: [supplier-last-resort-revised-guidance-2016](#).

⁵ [Faster SOLR levy process: consents to Last Resort Supply Payments | Ofgem](#)

The existing charging arrangements raise the issues of whether or not gas customers connected via an IGT network are charged the same as those connected directly to a GDN network and whether or not IGT shippers would receive a windfall gain.

Reasons for issuing a consent

This consent is intended to facilitate recovery evenly between gas customers connected directly to a GDN network and those connected via an IGT network.

This consent will result in a fair proportion of LRSP costs being allocated to customers connected via an IGT, and Ofgem's current thinking is that the IGTs will transfer the revenue received through SOLR charges to GDNs. Ofgem is currently in discussion with GDNs about the treatment of this money, and we are considering whether it should be paid back to gas shippers / consumers via lower Transportation Charges from October 2022. Another option is for GDNs to pay back any money received via lower Transportation Charges in 2023/24. Ofgem is planning to consult over the coming weeks on a range of options relating to the treatment of this money and also the longer-term enduring solution for the payment and recovery of SOLR claims.

Our decision and next steps

Our decision is to consent to each IGT increasing its Transportation Charges to recover a fair share of LRSP costs from its customers.

IGTs will be expected to pay those additional Transportation Charges to GDNs, subject to a fall-back option that should it be necessary, following further consultation and Ofgem consideration, the IGTs will return any SOLR charges to the relevant shippers.

If you have any questions regarding this letter, please contact Andrew Ryan (Andrew.Ryan@ofgem.gov.uk) in the first instance.

Consent

The formal consent to IGTs is found in an annex to this letter.

Yours sincerely,

Mick Watson
Interim Deputy Director, Regulatory Finance
For and on behalf of the Gas and Electricity Markets Authority

LRSP consent granted by the Gas and Electricity Markets Authority (GEMA)

To Independent Gas Transporter licensee company names and company numbers:

1. Energy Assets Pipelines Limited -	08743360;
2. ES Pipelines Limited -	03822878;
3. ESP Connections Limited	03234745;
4. ESP Networks Limited	02865198;
5. ESP Pipelines Limited	03405272;
6. Fulcrum Pipelines Limited	06006362;
7. GTC Pipelines Limited	03104203;
8. Harlaxton Gas Networks Limited	09805332;
9. Independent Pipelines Limited	02828692;
10. Indigo Pipelines Limited	02742721;
11. Last Mile Gas Limited	SC303150;
12. Leep Gas Networks Limited	10924298;
13. mua Gas Limited, formerly Murphy Gas Networks Limited	10622244;
14. Quadrant Pipelines Limited	02528816;
15. Squire Energy Limited	04786330.

WHEREAS:

- A. Each of the companies to which this consent is addressed (each an 'IGT Licensee') holds a licence granted, or treated as granted, pursuant to section 7 of the Gas Act 1986 ('the Gas Transporter Licence') and has a charging methodology approved under Special Licence Condition 1 ('SpC1') of that Gas Transporter Licence.
- B. When a failed supplier goes through the Supplier of Last Resort (SoLR) process, the incoming SoLR makes a claim for some costs incurred. GEMA considers that claim and when it approves a claim it becomes a valid claim.
- C. The network licences require that GDNs pay a valid LRSP claim presented by a SoLR.
- D. GEMA has decided to enable IGTs to recover a fair portion of LRSP claims through Transportation Charges.
- E. Paragraph 2 of Special Condition 1 ('SpC1') of the Gas Transporter Licence ('the Licence') provides that the IGT Licensee shall charge no more than TC₁, unless the Authority consents otherwise in writing. The definition of Single Supply Point (SSP) within that licence condition lists a series of charge components which IGTs should exclude from the calculation of their charges and also provides for the Authority to determine, in writing, additional charges to be specifically excluded.
- F. GEMA has decided to consent to each IGT increasing its network Transportation Charges for the charging year 2022/03 to recover a certain defined portion of LRSP costs and to pay the amount recovered to a receiving body specified by GEMA.
- G. GEMA considers it appropriate to issue the consent set out below, for the reasons set out above, which constitutes GEMA's notice of reasons pursuant to the Gas Act 1986.

NOW THEREFORE:-

1. GEMA hereby consents, pursuant to SpC1, that each IGT increases its network Transportation Charges above TC₁ by an amount specified by GEMA. For the avoidance of doubt, the LRSP charge shall be a component that is excluded from the definition of Single Supply Point Charge.
2. This consent applies to network Transportation Charges for the 2022/23 regulatory year only.
3. GEMA consents for IGTs to recover the specified LRSP charge over the twelve months of the 2022/23 regulatory year, starting from April 2022 where possible. Failing that, IGTs have consent to recover the LRSP charge over the eleven months starting from May 2022.
4. GEMA consents for IGTs to recover £35 per domestic MPRN per year, equivalent to 9.589 pence per domestic MPRN per day.
5. It is the intention of GEMA that Gas Shippers should regard these invoices as payable as part of LRSP recovery.
6. For the avoidance of doubt, the LRSP cost will not form part of the normal IGT network Transportation Charge and will not be subject to the usual floor and ceiling mechanism which governs IGT charges. It will be subject to VAT and the late payment terms of the IGT UNC.
7. The LRSP costs shall be a straight pass-through for IGTs, and all monies received will be directly payable to a receiving body, as agreed by the subsequent Ofgem consultation.
8. IGTs shall pass back to the receiving body (as agreed by the subsequent Ofgem consultation) only the amounts which they have recovered after reasonable endeavours. Should a Shipper cease trading during the 12-month period, or for any other reason after reasonable endeavours on the part of the IGT not pay the LRSP charge, any unpaid LRSP charge shall be deducted from the amounts owing to the receiving body.
9. If GEMA does not determine a receiving body for the LRSP by 31 October 2022, then each IGT shall refund the money collected back to relevant shippers.
10. This consent shall have effect from the date stated below.

Dated: 11 March 2022

Mick Watson

Interim Deputy Director, Regulatory Finance

For and on behalf of the Gas and Electricity Markets Authority