

Reference**Date**

27 January 2022

Cadent Gas Limited

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Simon Wilde

Director, Analysis and Assurance

Ofgem

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Dear Simon,

Re: Statutory consultation on modifications regarding Last Resort Supply Payment Claims for electricity supply, gas supply, electricity distribution and gas transportation licence conditions

Thank you for the opportunity to respond to Ofgem's statutory licence consultation on Last Resort Supply Payment (LRSP) Claims. We have confined our comments to those relating principally to Standard Special Condition A48 – Last Resort Supply: Payment Claims (SSpCA48) of the gas transporter licence and Standard Condition 9 – Claims for Last Resort Payments (SLC9) of the gas supply licence.

This response is not confidential and may be published by Ofgem.

The large number of energy market supplier failures, in part precipitated by exceptionally high wholesale gas prices during 2021, has led to a situation where £1.8bn of Supplier of Last Resort Payments have accrued which must be recovered from the remaining Shippers and Suppliers and ultimately borne by domestic customers. Under normal circumstances this recovery would take place during the following financial year 2022/23 but, given the cost of this in addition to the already signalled significant increase in energy prices from April 2022, Ofgem has proposed a different approach that would defer most of the £1.8bn increase over four successive years. This should alleviate the immediate impact of an element of gas and electricity bills, but at a greater cost overall, as the financing and interest charges associated with this approach will also be recovered from customers over that longer period.

Gas and Electricity Networks have been asked by Ofgem to support this process by agreeing to modifications to our licences to enable a phased cost recovery over the specified period. Although this is a finely balanced judgement, Cadent supports Ofgem's proposals in order to reduce an element of customer bills at a time when many households, and particularly those most vulnerable and on low incomes, could be facing difficulties with rising energy bills. Our comments on the proposed licence modifications are therefore intended to improve clarity rather than comment on matters of regulatory policy. We have made every effort to work together with Ofgem and industry parties and act responsibly to support our customers and communities in accordance with our values as a gas transporter.

Cadent Gas Limited

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National Gas Emergency Service

0800 111 999* (24hrs)

*Calls will be recorded and may be monitored

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Page 1 of 2



Standard Special Condition A48

Through dialogue with Ofgem over the course of January 2022, save for some minor suggested amendments set out below, we are able to accept Ofgem's latest proposed licence modifications circulated to GDNs on 26 January (ref Gas Transporter further interim draft 250122 (81586359_4)). Although we consider some of the drafting could be improved further and may need review at a future date, we have reviewed the proposed licence modifications in the round alongside the additional associated documentation and with the aim of supporting Ofgem's broader aims of minimising the immediate cost impact on customers.

The minor amendment referred to above is a simple cross-referencing correction. Para 15(b) should be amended as follows:

The interest referred to in Paragraphs 5 and 6 ~~sub-paragraph (a)~~ is simple interest for the period commencing with the date on which the claim was received by the licensee and ending with the date which is 61 days before the start of the relevant year, except where that period is of 30 days or less, in which case no interest shall be payable.

While developing the approach to the LRSP claims issue with Ofgem and networks, it has highlighted an anomaly in the regulatory framework that will need to be addressed at some point in 2022. Although Independent Gas Transporters (IGT) have an equivalent Standard Licence Condition to SSpCA48, the mechanism to recover charges does not exist, so while customers on Gas Distribution Networks are exposed to charges associated with LRSP claims, the same is not true for customers of IGTs. As the IGT customer base is now a substantial proportion of GB gas customers, this creates a cross-subsidy and undue discrimination between gas customers that urgently needs to be addressed by Ofgem for future claims.

Supply Licence - Standard Condition 9.

Similarly, in relation to SLC9 save for one amendment that should be made to Ofgem's latest proposed licence modification circulated to GDNs on 26 January (ref Gas supply – further interim draft 250122 (81586346_4)), we are able to accept the drafting as proposed. In common with SSpCA48, we consider the drafting could be improved but, taken in the round together with the additional associated documents, we have viewed this pragmatically in the interests of minimising the immediate cost impact on customers.

The amendment referred to above relates to Para 9.8(e). We understand that the intent of this clause is to enable Ofgem to direct a profile of payments across multiple years and not to reflect profiles within a year. The within year profiles are agreed between the SOLR providers and the transporters in line with the Uniform Network Code. Hence, we think it would be helpful to amend as follows to avoid any potential confusion:

the Authority's determination of the ~~profile of the payments of the~~ relevant amount in each year or for a procedure for the Authority to determine the same in the future; and

We trust that this response is helpful to Ofgem, but should you wish to discuss any aspects of the content, please contact me at your earliest convenience.

Yours sincerely

Richard Court

Director of Regulatory Strategy

By email

cc Andrew Ryan