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27th January 2022

WWU response to Ofgem statutory consultation on modifications regarding Last Resort Supply Payment Claims for electricity supply, gas supply, electricity distribution and gas transportation licence conditions

Dear Andrew,

Thank you for the opportunity to respond to this consultation.

General points

WWU recognises the huge effort put in by the industry with regard to the above consultation to reduce the impact of these charges on the domestic price cap at a time when the price cap will increase by a significant amount due to the large increases in gas and power wholesale costs.

WWU has constructively engaged with Ofgem and put considerable resource into engaging with these proposals. This letter lays out a number of key points of feedback; however, this does not constitute a comprehensive list of every point discussed during the working sessions with Ofgem.

Complexity

The process for setting charges on 31st January under the current licence is extremely tight and requires all parties to act in a timely manner and in a consistent way. The key risk is that the Suppliers do not provide amended claims consistent with the figures provided by Ofgem to the distribution networks. Our proposal would be to act in accordance with the current licence and set our prices in line with claims provided by the Suppliers. This approach relies on the comfort letter provided by Ofgem on 1st December 2021 in support of claims submitted by 31st December 2021. We would like Ofgem to confirm that this would be the licence compliant approach.

Cash flow neutrality

It is key that Ofgem ensures that WWU and other GDNs remain cash neutral and financially whole throughout the SoLR process. We expect Ofgem to ensure that this principle is safeguarded regardless of any understanding or expectations of other parties.

In our attached licence drafting proposals we have included a proposed paragraph A48 3b to address specific a risk to cash flow neutrality should the SPV not proceed as envisaged.

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Unintended consequences

Given that this work was done at pace and without sight of the final drafting there may be need of a further statutory consultation should any unintended consequences or snagging issues emerge.

Additional to the three key messages above we also want to raise two further points.

Last Resort Supplier Payment (LRSP) valid claims are Supplier business costs that they are unable to recover themselves. This means that including LRSP valid claims in MPt (Miscellaneous Pass-through) in the Price Control Financial Model (PCFM) is incorrect as they are not allowances and neither are they transportation business costs. This point has been raised with Ofgem since November 2021 on a number of occasions and we await a response.

Ofgem will be aware that IGT consumers will not be exposed to SoLR charges from DNs under UNC modification 0797 that Ofgem recently directed to be implemented. WWU's view is that IGT customers should bear their share of SoLR costs through Suppliers submitting claims to IGTs under Standard Condition 48.

We attach documents relevant to this response below.

Yours sincerely,



Sarah Williams
Director of Regulation, Asset Strategy & HS&E
Wales & West Utilities

Attached
Proposed drafting for Transporter Standard Special Condition A48
Proposed drafting for Supplier Standard Condition 9