

Smell gas?

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on 0800 111 999

Andrew Ryan
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

18 May 2022

Dear Andrew,

Open letter about recovery of Last Resort Supply Payment claims from customers connected to GDN and IGT networks

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) has been party to ongoing discussions relating to the Last Resort Supply Payments resulting from Supplier failures in 2021.

We are broadly supportive of Option 1, and believe that the mechanics of this can be made to operate in a relatively straightforward manner. Our preference would be that a GDN Licence change is made for GDNs to permit us to collect this money from IGTs. This should also clearly define the regulatory treatment of the money, especially when considering technical levy accounting requirements. Current Standard Special Condition A48 and Uniform Network Code (UNC) only allows these revenues to be collected from Shippers. It is our understanding that no Licence change is proposed, and that Ofgem intends to instruct the GDNs to treat money collected from IGTs 'as if it were from shippers' and thus, we would be able to ensure that the relevant financial models can be updated appropriately.

We strongly believe that by asking the GDNs to collect this money from the IGTs it is most appropriate for us to undertake a mid-year price change to reduce the unit rate applied to non-IGT customers for the Supplier of Last Resort levy. This will even the levy across customer types within the same regulatory year. GDNs will be required to provide a 60 day pricing notice to industry, and therefore it is important that we receive the relevant instructions with sufficient time to undertake the pricing amendment and to go through internal governance.

Option 2 would be our preferred enduring solution as it would place identical regulatory requirements onto IGTs as exist for GDNs. By switching on Standard Condition 48 for IGTs, this could be achieved, although we understand that this may require a longer lead time, resulting in key dates to implement

**we are
the network**

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Registered office: 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU



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this within the 2022/23 year difficult. We believe that this could easily be achieved for the 2023/24 year, however, we understand that this is not Ofgem's preferred option.

Option 3 would create a delay in returning money to customers from an over-recovery in 2022/23, which we do not believe should be considered in the current high energy cost environment. This also removes the ability to directly target the pricing adjustment to directly connected properties for the over-recovery in the year. GDNs only have a single unit rate available to make these charges and it would not be possible for GDNs to differentiate between customer types in applying 2023/24 charges without significant central system changes.

NGN has presented a 'pre-modification' proposal through relevant industry meetings and is intending to raise a formal UNC proposal which will provide clarity that GDN SoLR charges from 2023/24 will be applied equally to IGT properties within the relevant distribution network as to those directly connected properties. We believe this will meet the aspirations of your preferred enduring solution.

Please contact me should you have any queries about this response.

Yours sincerely

By email

Joanna Ferguson
Head of Market Service & Regulatory Compliance




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the network

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