



Making a positive difference
for energy consumers

Gas Distribution Network licensees
Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Network plc
Wales & West Utilities Limited

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Date: 22 July 2022

Consent for recovery by Gas Distribution Networks from Independent Gas Transporters of Last Resort Supply Payment claims arising from failed Gas Shippers

This letter relates to a consent to all Gas Distribution Networks (GDNs), to facilitate invoices by GDNs to Independent Gas Transporters (IGTs)¹ for appropriate portions of Last Resort Supply Payment (LRSP) claims arising from the failure of Gas Shippers.

Background

GDNs, IGTs and Gas Shippers are licensed by the Gas and Markets Authority² (GEMA).

Government policy by the Department for Business, Energy and Industrial Strategy (BEIS) recognises that consumers benefit from market competition. When a small gas shipper fails, in order to protect the interests of retail customers who rely on small Gas Shippers, BEIS policy enables an incoming Supplier of Last Resort (SoLR) to claim certain costs through a claim known as a Last Resort Supply Payment (LRSP) claim.

The Gas Transporter licence obliges GDN licensees to pay to an incoming SoLR an LRSP claim that has been approved by GEMA and enables a pass-through of those costs under the price control. The approved LRSP claims are thus socialised by inclusion in future network charges.

GDNs need a mechanism to recover an appropriate share of LRSP claims from customers connected via IGT networks. As an interim solution for LRSP claims arising from the failure of Gas Shippers in the year ended March 2022, GEMA decided, in a letter dated 16 June 2022, that GDNs should invoice IGTs for their relevant portions of LRSP claims paid by GDNs to SoLRs.

In the Gas Transporter Licence, paragraph 3(d) of Standard Special Condition A36 'Restriction on Activity and Financial Ring Fencing' enables consent to be given to a specific business activity.

¹ Independent Gas Transporters are those gas transporter networks, with third-party connections, that are not Gas Distribution Networks (GDNs). GDNs are subject to price control while IGTs operate under the Relative Price Control (RPC).

² References to 'the Authority', 'GEMA', '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.

Reasons for granting consent

Gas and electricity consumers benefit from access to market entry by Gas Shippers. It follows that approved LRSP claims arising from the failure of Gas Shippers should be passed through to consumers in gas transportation network charges.

Granting consent for GDNs to invoice IGTs will facilitate recovery by GDNs of the portion of LRSP claims relating to customers connected via an IGT network.

Our decision and next steps

We have considered this issue in accordance with our principal objective under the Gas Act 1986 and in accordance with our wider statutory duties and decided that granting consent, under Standard Special Condition A36 Paragraph 3(d), for GDNs to invoice IGTs for their portions of LRSP claims is appropriate in this case.

Our view remains that consumers benefit from the policy of facilitating competition amongst Gas Shippers and that, in principle, the costs arising from the failure of small Gas Shippers should be recovered from consumers.

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 granted to GDNs is found in an annex to this letter.

Yours sincerely,

Jonathan Gorrie
Chief Financial Advisor
For and on behalf of the Gas and Electricity Markets Authority

Consent granted by the Gas and Electricity Markets Authority (GEMA)

To Gas Distribution Network licensees; company name and company number:

- | | |
|-----------------------------------|----------|
| 1. Cadent Gas Limited - | 10080864 |
| 2. Northern Gas Networks Limited | 05167070 |
| 3. Scotland Gas Networks plc | SC264065 |
| 4. Southern Gas Network plc | 05167021 |
| 5. Wales & West Utilities Limited | 05046791 |

Consent for recovery by Gas Distribution Networks from Independent Gas Transporters of Last Resort Supply Payment claims arising from failed Gas Shippers

WHEREAS:

- A. Each of the companies to which this Consent is addressed (each a 'GDN Licensee') holds a Gas Transporter licence granted, or treated as granted, pursuant to section 7 of the Gas Act 1986 ('the Gas Transporter Licence').
- B. On 16 June 2022 the Gas and Electricity Markets Authority (GEMA) issued a decision letter about an interim solution for recovery of Last Resort Supply Payment (LRSP) claims arising from the failure of gas shippers in the year ended March 2022.
- C. The interim solution authorises GDN Licensees to invoice Independent Gas Transporter (IGT) licensees for each IGT's share of LRSP claims approved by GEMA.
- D. To facilitate orderly exit from the energy retail market, an incoming Supplier of Last Resort (SoLR) is allowed to recover certain costs via an approved LRSP claim.
- E. Gas and electricity consumers benefit from access to market entry by gas shippers and retail suppliers. It follows that LRSP claims arising from the failure of gas shippers should be passed through to consumers in transportation charges.
- F. Granting consent for GDNs to invoice IGTs for their share of LRSP claims will facilitate recovery of an appropriate portion of LRSP claims from customers connected via IGT networks.
- G. GEMA considers it appropriate to grant the consent set out below, for the reasons set out above, which constitutes GEMA's notice of reasons under section 38A of the Gas Act 1986.
- H. Standard Special Condition A36 'Restriction on Activity and Financial Ring Fencing' paragraph 3(d) states that nothing shall prevent the GDN Licensee from conducting any activity to which GEMA has given its consent in writing.

NOW THEREFORE:-

- 1. GEMA hereby consents pursuant to Standard Special Condition A36 paragraph 3(d) of the GDN gas transporter licence that, each GDN Licensee may invoice IGTs for each IGT's share of approved LRSP claims arising from the failure of gas shippers.
- 2. This consent shall have effect from the date stated below.

Dated: 22 July 2022

**Jonathan Gorrie
Chief Financial Advisor
For and on behalf of the Gas and Electricity Markets Authority**