



Making a positive difference  
for energy consumers

Independent Gas Transporters and other  
interested parties

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## **Consent for recovery of gas transportation charges bad debts arising from failed gas shippers**

This letter relates to a consent for all Independent Gas Transporters (IGTs)<sup>1</sup> which are licensed by the Authority<sup>2</sup>.

### **Background**

To facilitate entry into the energy retail market, electricity distribution networks are obliged to provide credit to retail suppliers while gas transporters, including IGTs, are obliged provide credit to gas shippers.

After following the required credit control procedures, networks have incurred bad debts in respect of distribution use of systems charges arising from the failure of retail suppliers and gas shippers. Electricity Distribution Network Operators (DNOs) and Gas Distribution Networks (GDNs) are able to pass-through efficiently incurred network bad debts under their respective price controls. A bad debt recovery mechanism is also in place for Independent Distribution Network Operators (IDNOs).

IGTs need a mechanism to recover efficiently incurred gas transportation charges bad debts in order to put them on an equal footing with GDNs, DNOs and IDNOs. This can be done through the IGT licence Special Condition 1, Paragraph 2, which specifically enables the Authority to grant consent for IGTs to charge more than the amount described in Paragraphs 1, 2 and 3 of that Special Condition.

### **Reasons for granting consent**

Gas and electricity energy consumers benefit from access to market entry by retail suppliers and gas shippers. It follows that efficiently incurred network charges bad debts arising from the failure of retail suppliers and gas shippers should be passed through to consumers in gas transportation and electricity distribution charges.

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<sup>1</sup> 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).

<sup>2</sup> 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.

On 21 February 2022 the Independent Networks Association (INA) requested that the Authority grant consent under Special Condition 1 to enable IGTs to recover efficiently incurred gas transportation charges bad debts arising from the failure of gas shippers in the year ended March 2022.

Granting consent for IGTs to recover efficiently incurred gas transportation charges bad debts will align the policy for IGTs with the policy in place for GDNs, DNOs and IDNOs.

### **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 for IGTs to recover gas transportation charges bad debts pursuant to Special Condition 1 paragraph 2 of the gas transporter licence is appropriate in this case.

In the context of the policy which requires provision of credit to retail suppliers and to gas shippers, our view remains that consumers benefit from that policy and that, in principle, the costs arising from the failure of small retail suppliers and gas shippers should be recovered from consumers.

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

### **Consent**

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

Yours sincerely,

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

**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. On 21 February 2022 the Independent Networks Association (INA) requested that GEMA grant consent under SpC1 to enable IGTs to recover efficiently incurred gas transportation charges bad debts arising from the failure of gas shippers in the year ended March 2022.
- C. Paragraph 2 of SpC1 of the Gas Transporter Licence provides that the IGT Licensee shall charge no more than TC<sub>1</sub>, unless the Authority consents otherwise in writing.
- D. To facilitate entry into the energy retail market, electricity distribution networks are obliged to provide credit to retail suppliers while gas transporters, including IGTs, are obliged provide credit to gas shippers.
- E. Gas and electricity energy consumers benefit from access to market entry by gas shippers and retail suppliers. It follows that efficiently incurred gas transportation charges bad debts arising from the failure of gas shippers should be passed through to consumers in transportation charges.
- F. Granting consent for IGTs to recover efficiently incurred gas transportation charges bad debts will align policy for IGTs with policy in place for GDNs, DNOs and IDNOs.
- 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 pursuant to the Gas Act 1986.

**NOW THEREFORE:-**

1. GEMA hereby consents pursuant to Special Condition 1 paragraph 2 that, for the calendar year starting January 2023, each IGT may charge more than TC<sub>1</sub> in order to recover efficiently incurred gas transportation charges bad debts arising from the failure of gas shippers.
2. The approved mechanism for recovery of gas transportation charges bad debts is to apply a fixed charge to each metered supply point connected to the IGT's network, on a pence per Meter Point Reference Number (MPRN) per day basis (pence/MPRN/day). This charge shall be itemised and made transparent to all gas shippers as part of monthly transportation charging invoices. It shall be billed and collected monthly in line with existing processes for transportation charging within the IGT-UNC.
3. The fixed charge will be calculated using the following formula:

$$BDFA = (\text{Total Bad Debt} / \text{Total Customers} \times 100) / \text{Days}$$
  
where:

'*BDFA*' is the is the Bad Debt Fixed Adder to be charged to each metered Meter Point Reference Number (MPRN), expressed in pence/MPRN/day.

'*Total Bad Debt*' is the efficiently incurred bad debt incurred by the IGT as a result of non-payment of gas transportation charges following shipper failure.

'*Total Customers*' is the total number of metered customers that the IGT has connected to its networks on 30th June in the calendar year immediately preceding the calendar year in which the Bad Debt Fixed Adder is to be levied.

'*Days*' is the total number of days in the calendar year over which the Bad Debt Fixed Adder is to be levied.

4. The amount by which each IGT will charge more than TC<sub>1</sub> will be limited to the Bad Debt Fixed Adder as submitted to Ofgem by the end of July 2022 by the compliance officer of each licensee.
5. GEMA consents to interest being applied from the date on which the bad debt is incurred until 31 December 2022.
6. This consent shall have effect from the date stated below.

**Dated: 1 June 2022**

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