WALES&WEST UTILITIES

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

Telephone/Ffôn: 0800 912 29 99
Fax/Ffacs: 0870 1450076
Email/Ebost: enquiries@wwutilities.co.uk
www.wwutilities.co.uk

Rob Salter Church
Partner, Consumers and Competition

supplier@ofgem.gov.uk

ccRob.Salter-Church@ofgem.gov.uk

14th December 2017

**RE: Last Resort Supplier Payment Claim from Co-operative Energy**

Dear Rob,

Wales & West Utilities is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.5 million supply points.

We thank you for the opportunity to make representations regarding Ofgems minded-to letter dated 16th November 2017. We echo your sentiment that this claim should not be taken as a precedent in either its overall value, or the timing of the process which has occurred. Our response focusses on three core themes:

1. The total amount of the claim
2. How this amount is proportioned amongst customer classes
3. How the amount is recovered from those classes (for Gas Distribution)

**The total amount of the claim**

We agree with the points set out which should be considered, namely that the costs are additionally incurred, relevant, unavoidable and efficient. Clearly, at the time of supplier failure it is important to provide customers with assurance going forward that their supplies will continue and whom their future relationship will be with. In doing so we understand there is a trade off between efficient acceptance of a Supplier of Last Resort (SoLR) and robustly assessing which SoLR will provide the most cost efficient outcome to the industry in the end. We believe that this claim highlights potential flaws in the current process. The SoLR selected may not result in the most optimum consumer outcome following receipt of a their future claim under SoLR which may be higher than another supplier would submit having been able to perform the same duties.

**Apportionment amongst customer classes**

We understand that the current plan by Ofgem is to confirm the SoLR payment in January 2018, and in doing so apportion amongst the industry who benefit from having the SoLR protection. We understand this will form two stages:

1. Apportion the amount 50:50 amongst Electricity distribution and Gas distribution
2. Apportion the gas element amongst the Distribution networks based on supply point count (based on RRP information from the preceding 31 March).

This approach, whilst simple to administer, has the potential to introduce cross subsidy. This can occur in two main ways. Firstly there are approximately 50% more electricity supply points than there are gas, therefore a 50:50 split potentially levies too large a proportion on the gas consumers, who would therefore be subsidising electricity consumers. As these groups are separate we believe this should be avoided. Secondly, whilst the SoLR is to the benefit of the industry, consideration of supplier customer base should also be a consideration. For example if the supplier was electricity only, it would appear inappropriate to apportion costs to the gas customer (and vice versa).

A simple solution to address the first issue would be to remove the 50:50 split and proportion the claim against the electricity and gas DNO based on their meter point volumes as a proportion of total meter points (both electricity and gas). Should the 50:50 split be retained we would encourage support that justifies that this is appropriate. For example considering the number of supply points, their relevant usages and unit rates providing therefore a cost per supply point apportionment.

We believe the industry should jointly agree the extent to which either the geography of the failed supplier, or mix of gas and electricity supply points should feature in any future claim decision (accepting this would not be applied to this claim).

**<u>How the amount is recovered</u>**

Networks have a number of existing licence requirements to consider when setting their annual transportation charges. Most notably:

1. The licence requirement (Standard Special Condition A4) to inform Ofgem of their intention to change unit rates within 30 days of the effective date of the change
2. The requirement to assure submission to Ofgem under Licence condition A55
3. Standard Special Condition A48: Last Resort Supply: Payment Claims which sets out a valid claim will be recovered in the following charging year, so a claim now impacts charging effective 1st April 2018.

Furthermore the Uniform Network Code (UNC) requires prices to be set for the forthcoming charging period with at least 60 days notification.

Therefore, for the SoLR claim to be collected by networks for the charging year 2018/19 it would require either forecast or known values by 1st February 2018 (so as to adhere to UNC), but licence Condition A55 would require appropriate assurance over the price change. Receiving final determination by 10th January 2018 would allow both:

- Shippers to be notified of the change prior to the release of final prices (through the UNC group Distribution Network Charging Methodology Forum)
- DNOs to include the costs within their allowed revenue forecasts so as to minimize under/over recovery which we know from our stakeholders is important.

However, if this was not achievable we accept a forecast could be made based on the information provided, namely £14.04m apportioned 50:50 gas:electricity and by supply point count within each proportion. This is unlikely to result in a material under or over collection for any one network however it highlights how the current SoLR process is not aligned to one of the requirements of our stakeholders, namely stable and predictable pricing.

We would recommend that Ofgem utilise the licence term MPt (Miscellaneous pass through) which would formally increase the allowance of the DNO and increase their collection in the year 2018/19. On receipt of the SoLR claim from Co-op it can be agreed how this would be repatriated. Our understanding is for the gas industry the ad hoc invoice process or the INR invoice type could be utilised allowing the amount to be paid to Co-op in either monthly or quarterly instalments as required in their Supply Licence through our billing agent Xoserve.

**Conclusion**

We are happy to work with the industry/Ofgem and the SoLR to complete the process for this claim and believe that the proposals set out above are pragmatic in recovering an appropriate proportion from the supply base. In a market with increasing new entrants, with differing risk profiles by geography and customer class we believe it is important that the end to end SoLR process be reviewed. This would seek to identify risks, and propose suggested improvements so that any future claim (should it happen) would be done in a way which provided shippers greater forecasting of magnitude in advance of prices being set by their network operators, and increasing transparency around whether the consumer outcome is optimum.

Yours sincerely,

Steve Edwards
Director of Regulation and Commercial
Wales & West Utilities



Wales & West Utilities Limited
Registered Office:
Wales & West House, Spooner Close, Celtic Springs,
Coedkernew, Newport NP10 8FZ
Registered in England and Wales number 5046791