

Reference

CN- 091

Date

13 December 2017

Cadent Gas Limited

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Rob Salter-Church
Partner, Consumers and Competition
Ofgem



Email: supplier@ofgem.gov.uk

Dear Rob,

Last Resort Supplier Payment Claim from Co-operative Energy

This response is made on behalf of Cadent Gas Limited (“Cadent”) and can be published by Ofgem.

Thank you for the opportunity to provide feedback on Ofgem’s minded-to letter on providing consent to Co-Operative Energy Limited (CEL) under the Supplier of Last Resort (SoLR) process of up to £14.04m. We have no specific points of feedback on the proposed level of consent, but would like to make recommendations for the onward process in order to promote fairness, consistency transparency and expediency given the timescales involved with the particular case in hand. These may be of benefit to inform future such cases, but not precedential – we note that whilst the Gas Transporter and Supplier Licences cover certain points of obligation, the overall process is lacking in specific definition, and we would be happy to support Ofgem’s Last Resort Supply team in developing this further. The recommendations are generally written from a Gas Distribution Network (GDN) perspective, but reference cross sector aspects in places.

To achieve the neutral revenue recovery / claim payment position required by the Gas Transporter Licence, there must be defined mechanisms by which Transporter’s allowed revenue can be adjusted such that gas transportation charges can be set to recover the value of the SoLR claim from the wider Gas Shipper community.

In the first instance, this requires an apportionment of the claim value between the Electricity and Gas distribution sectors. We propose that a simple and appropriate way to allocate the claim would be on the basis of total supply point numbers (or electricity equivalent) for both sectors. This will ensure that each sector’s customers are receiving a relevant share of the claim, and that the ‘cost reflectivity’ objectives of respective charging methodologies are protected. Within sector allocations can be established by the split of supply points (or equivalent) for each network. We anticipate that the data required to facilitate this allocation approach can be accessed by Ofgem from annual Regulatory Reporting Pack (RRP) submissions for both sectors.

Once sectoral and within sector allocations are established, a mechanism is required to adjust GDN allowed revenues such that the SoLR claim can be recovered through Gas Transportation charges. We propose that the Miscellaneous Pass Through term (MPt) in the Gas Transporter Licence be used for this purpose. Utilisation of this term by a Gas Transporter requires consent and direction from Ofgem. We perceive that this can only add to the transparency of the overall process, and ensures that GDNs adjust

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revenues for the correct allocated value. This approach also carries the additional advantages that adjustment via the MPt term creates visibility of the revenue adjustment through annual RRP submissions to Ofgem, but also to Gas Shippers via GDNs quarterly revenue forecasts (required by Uniform Network Code).

Of particular importance to the current SoLR case is that use of MPt consent by Ofgem is an expedient way of providing GDNs an allocation of the claim in advance of the 2018/19 transportation charge setting process. GDNs are required by UNC to provide 2 months' notice of final charges, meaning that publication of these is required by 31st January 2018. Feeding the allocated SoLR claim value into the transportation charge calculation carries its own lead time owing to important administrative, governance and assurance considerations. This realistically means that guidance by Ofgem on the GDN allocation of the claim needs to be provided by mid-January 2018 at the latest. As the wider Gas Shipper community will be bearing the value of the claim through transportation charges, it is only fair that they receive due notice of the impact.

We propose that adjusted allowed revenues can flow into unit price calculation without any other specific intervention (for instance targeting specific charge types, load bands or customer classes). This means that adherence to the UNC Gas Distribution Charging Methodology is unaffected. To the extent that any over or under recovery of allowed revenue occurs during 2018/19, the amount attributable to the SoLR claim can be easily ascertained, and would be subject to standard two year lagged adjusted to future allowed revenue determinations, and no further specific revenue of transportation charge adjustments would be required.

The points above relate to the distribution of the SoLR claim recovery through transportation charges. A mechanism to pay CEL is also required. Per the Gas Transporter Licence, to effect payment to CEL in 2018/19, a valid claim must be received by Licensees with at least 60 days' notice of the commencement of the formula year. In this, the claimant should specify whether payment is to be made in monthly or quarterly instalments. Our preference would be monthly to best match revenue recovery with payment in net cash flow terms. We anticipate that provided notice is received in accordance with the Licence, that payment to CEL can be effected through Xoserve's 'Request to Bill' process. We will continue to work with both Xoserve and the other Gas Distribution Networks to ensure that a robust, consistent and transparent mechanism is in place in this regard.

If you have any further questions please do not hesitate to contact me using the details at the top of this letter.

Yours sincerely
By email

Craig Neilson
Revenue & Pricing Manager
Regulation & External Affairs