

DIRECTION ISSUED TO:

**Cadent Gas Ltd
Northern Gas Networks Ltd
Scotland Gas Networks PLC
Southern Gas Networks PLC
Wales & West Utilities Ltd**

TREATMENT OF COSTS IN RESPECT OF OCTOPUS ENERGY LIMITED'S ("OCTOPUS") LAST RESORT SUPPLY PAYMENT CLAIM AS MISCELLANEOUS PASS-THROUGH UNDER SPECIAL CONDITION 1C OF THE GAS TRANSPORTER LICENCE

WHEREAS:

1. Each of the companies to whom this Direction is addressed (each a "Licensee") holds a Gas Transporter licence granted, or treated as granted by the Gas and Electricity Markets Authority (the "Authority") under section 7 of the Gas Act 1986 ("the Act").
2. The Authority appointed Octopus Energy Limited (Octopus) as a Supplier of Last Resort with effect from 1 August 2018 to the customers of Iresa Limited (Iresa) after the latter ceased trading.¹
3. Standard Condition 9 (Claims for Last Resort Supply Payment) of the Gas and Electricity Supply Licences provides that a Supplier of Last Resort may make a claim for a Last Resort Supply Payment to compensate for additional costs it has incurred in complying with a Last Resort Supply Direction, from relevant gas transporters and electricity distributors, where the Authority has given its consent to the amount claimed.
4. On 14 December 2018, Octopus submitted notice of its intention to claim for a Last Resort Supply Payment ("Octopus LRSP Claim"), which GEMA approved in part on 24 January 2019.² On 30 January 2019, Octopus submitted its claim to the Licensees.
5. The Licensees are required by paragraph 4 of Standard Special Condition A48 (Last Resort Supply: Payment Claims) of their Gas Transporter Licences to increase their transportation charges from 1 April 2019 to such an extent as they reasonably estimate to be appropriate to secure that such consequential increase in their revenue equals the specified amount.
6. Paragraph 10 of Standard Special Condition A48 provides that "in calculating the licensee's transportation revenue during any period for the purposes of a price control condition any increase or decrease in revenue attributable to the licensee's compliance with this condition shall be treated as if it had not occurred".

¹ <https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-octopus-energy-limited-electricity-supplier-last-resort>
<https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-octopus-energy-limited-gas-supplier-last-resort>

² <https://www.ofgem.gov.uk/publications-and-updates/last-resort-supplier-payment-claim-octopus-energy-final-decision>

7. In order to provide transparency over the recovery of the LRSP claim, we have decided to direct the recovery through the Miscellaneous Pass-through (“MPt”) term of the licence. Special Condition 1C (Distribution Network allowed pass-through items) of the licence contains a MPt term, which allows for pass-through of miscellaneous items as directed by the Authority. We consider the use of MPt term to be appropriate in reconciling amounts relating to the Octopus LRSP Claim in the Licensees’ price control and in achieving the aims in paragraph 10 of Standard Special Condition A48.
8. In accordance with Special Condition 1C, the Authority directs the following values to be recovered through the MPt term for the formula year 2019/20 in respect of the Octopus LRSP Claim. The following are the Octopus LRSP Claim amounts for each of the Licensees’ distribution networks:

Licenses MPt amounts for 2019/20

Licenses	MPt amounts for 2019/20
Northern Gas Networks Limited	£ 736,896
Wales & West Utilities	£ 675,649
Scotland Gas Networks PLC	£ 488,251
Southern Gas Networks PLC	£1,097,281
Cadent	£2,923,460
Of which:	
Cadent East of England	£1,072,481
Cadent London	£ 607,925
Cadent North West	£ 718,643
Cadent West Midlands	£ 524,412

9. Whilst Cadent is a licensee with a single MPt term, Octopus has submitted separate claims to each of the four distribution networks under the Cadent licence. For reporting purposes, each of these claims are to be recorded in the Revenue Reporting templates.
10. This direction constitutes notice for the reasons for this decision as required by section 38A of the Act.

NOW THEREFORE

The Authority hereby directs the above values in respect of the Octopus LRSP claim, to be recovered through the MPt term in Special Condition 1C, for the formula year 2019/2020.

This direction is effective from 01 April 2019.

Signed

Steve McMahon

A handwritten signature in black ink, appearing to read 'Steve McMahon', written in a cursive style.

Deputy Director, Systems & Networks

Authorised for and on behalf of the Gas and Electricity Markets Authority.

Dated: 04 November 2020