

Gas Supplier of Last Resort Information paper

16 April 2018



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland’s electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing the markets, networks and corporate affairs functional areas of the organisation. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission:

Value and sustainability in energy and water

Our Vision:

We will make a difference for consumers by listening, innovating and leading

Our Values:

Be a best practice regulator: transparent, consistent, proportionate, accountable, and targeted

Be a united team

Be collaborative and cooperative

Be professional

Listen and explain

Make a difference

Abstract

This information paper sets out the Gas Supplier of Last Resort arrangements in Northern Ireland. This paper can be read alongside the Gas SoLR licence modifications consultation.

Audience

This information paper would be of particular interest to licence holders and consumer representative bodies.

Consumer impact

This project delivers on the Consumer Protection Strategy Objective 3 which is to empower customers through education and transparency by putting in place arrangements for a Gas Supplier of Last Resort.

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Glossary

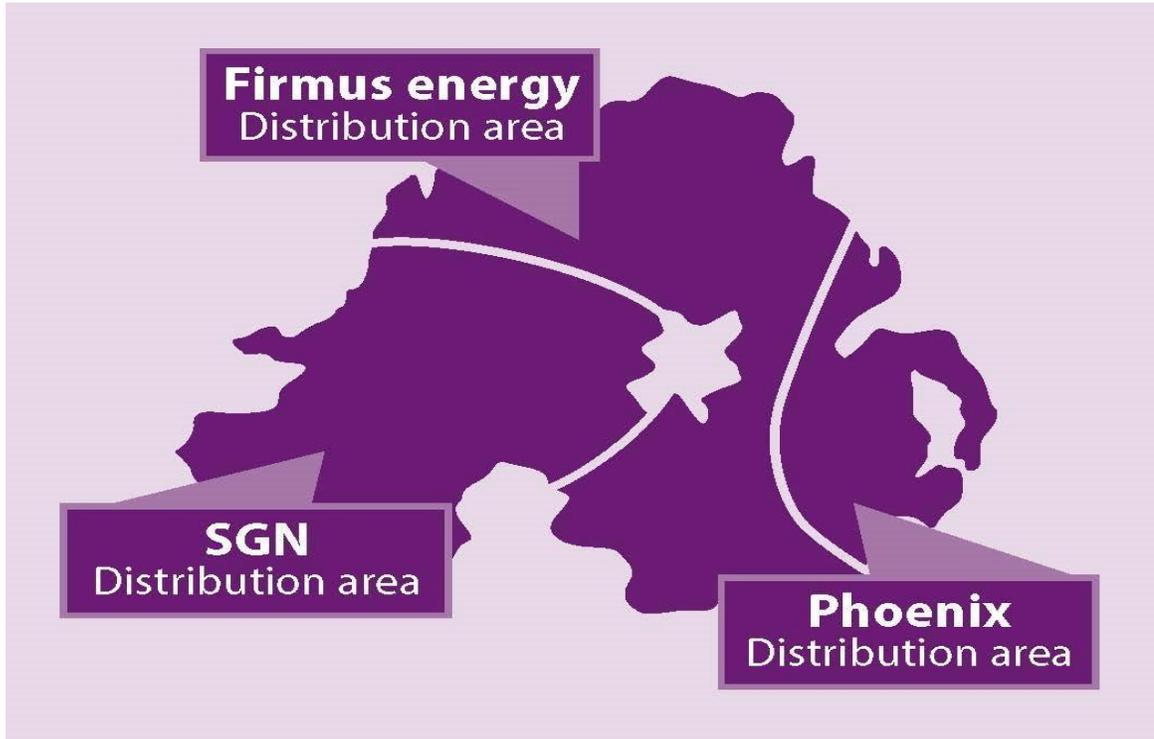
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|----------|--|
| BGTL | Belfast Gas Transmission Limited |
| CCNI | Consumer Council for Northern Ireland |
| DfE | Department for the Economy |
| DNO | Distribution Network Operator |
| feDL | Firmus energy (Distribution) Limited |
| GMO NI | Gas Market Operator for Northern Ireland |
| GNI (UK) | GNI (UK) Limited |
| NI | Northern Ireland |
| PNGL | Phoenix Natural Gas Limited |
| PTL | Premier Transmission Limited |
| SGN NG | SGN Natural Gas Limited |
| SoLR | Supplier of Last Resort |
| TSO | Transmission System Operator GNI (UK), PTL, BGTL and WTL. WTL is not a TSO (Transmission System Operator) as defined by the European Commission but it is referred to as a TSO in this document for simplicity. |
| UR | Utility Regulator |
| WTL | West Transmission Limited |

1. Introduction

Northern Ireland Gas Market Overview

- 1.1 This information paper outlines the gas Supplier of Last Resort (SoLR) arrangements which have been developed by the Utility Regulator (UR) in conjunction with, the natural gas industry and consumer representative groups.
- 1.2 The natural gas network in Northern Ireland is operated by a number of licensees representing transmission, distribution and supply.
- 1.3 There are four transmission pipelines (high pressure conveyance licences) which are owned by Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL), West Transmission Limited (WTL) and GNI (UK) Limited (GNI (UK)). The Gas Market Operator for Northern Ireland (GMO NI) acts as the single gas market operator representing each of these entities and manages the transmission interaction with the distribution market.
- 1.4 The gas distribution network licensees are responsible for the medium and low pressure mains that convey to the licensed areas throughout Northern Ireland. There are three Distribution Network Operators (DNOs) who operate in separate distribution areas as illustrated on the map which follows:
 - firmus energy (Distribution) Ltd (feDL) from the North West through the Central region to the Southern areas of Northern Ireland;
 - Phoenix Natural Gas Ltd (PNGL) mainly Greater Belfast, Larne and a recent extension into East Down; and
 - SGN Natural Gas Ltd (SGN NG) in the West of Northern Ireland.

Figure 1: Gas Distribution Licenced Areas



- 1.5 Each DNO owns and manages the natural gas distribution network in their distribution area. Those companies who supply gas (suppliers) pay the relevant DNO a fee to transport natural gas, and then sell it straight to the consumer. Although a DNO is responsible for making sure the natural gas reaches individual homes, it is the responsibility of the gas supplier to bill consumers for the gas they use.
- 1.6 A full list of natural gas suppliers in Northern Ireland and the areas in which they operate can be found on the UR website.
- 1.7 Given the changing dynamics within the Northern Ireland gas supply market, the development and introduction of formal SoLR arrangements is essential to ensuring continuity of supply, should a SoLR event be triggered.
- 1.8 The gas SoLR arrangements are necessary to clarify the requirements and the processes for all industry participants should a SoLR event be initiated.
- 1.9 The introduction of the gas SoLR arrangements delivers upon an essential objective outlined in the Consumer Protection Strategy which is: to empower customers through education and transparency and put in place SoLR arrangements for gas.

- 1.10 The project also delivers on Strategic Objective 3 of the UR's Forward Work Plan 2017/18: protecting the long-term interests of business and consumers through the introduction of the gas SoLR arrangements.

Gas SoLR background

- 1.11 The [Gas \(Supplier of Last Resort\) Regulations \(Northern Ireland\) 2009](#) give the UR the power to appoint a SoLR where there is a failure of a gas supply company. This guiding principle has informed the UR's approach to developing the gas SoLR arrangements. The Regulations came into force to conform to EU Directive 2003/55/EC.
- 1.12 In March 2011 the UR published a consultation paper on SoLR requirements. This paper outlined the considerations and principles the UR deemed necessary for the selection and appointment of a SoLR at that time. The UR published a subsequent [decision paper](#) in June 2012. This decision paper outlined the key SoLR issues and the overall framework for developing the SoLR processes. However this did not include any detailed industry arrangements, procedures or the licence modifications needed to ensure those processes were followed.
- 1.13 The gas supplier forum has been used to develop and agree the necessary gas SoLR arrangements across the industry. The supplier forum is chaired by the UR and includes representatives from gas suppliers, the DNOs and CCNI.
- 1.14 As part of the implementation of the gas SoLR arrangements a licence modification consultation for all gas conveyance and supply licence holders has been developed and will be consulted on alongside the release of this information paper. The proposed licence modification requires all licence holders to have systems and processes in place to comply with the agreed SoLR arrangements.
- 1.15 Primarily, the gas SoLR arrangements, alongside the proposed gas conveyance and supply licence modifications, will ensure that Northern Ireland (NI) gas customers maintain continuity of gas supply should a SoLR event be initiated. The development of the SoLR arrangements has also ensured that the necessary work on the systems and individual response plans needed to respond to a SoLR event have also been completed.

2. Supplier of Last Resort process

Gas SoLR arrangements

- 2.1 Schedule 2 of the gas supply licences outlines the range of circumstances in which the UR can revoke a gas supply licence and includes the following reasons:
 - A serious licence breach;
 - Non-payment of licence fees;
 - Financial hardship; and
 - Planned exit of the market by the supplier.
- 2.2 With the exception of a planned exit by a supply licensee, the licence revocation process will trigger a SoLR event.
- 2.3 The agreed industry arrangements for a SoLR event (“SoLR arrangements”) provide a detailed outline of the processes to be followed by the relevant licensees prior to, during and following a SoLR event.
- 2.4 The SoLR arrangements describe the necessary interactions between the UR, GMO NI on behalf of the Transmission System Operators (TSOs), DNOs, SoLR(s), defaulting gas supplier, other gas suppliers and CCNI for the purpose of achieving the requirements of the Regulations in a SoLR event.
- 2.5 The SoLR arrangements include very detailed procedures; their development has taken considerable efforts and resource. The UR acknowledges the hard work of the gas industry participants to date in establishing the SoLR arrangements.
- 2.6 Should a SoLR event be initiated, each industry participant will be required to comply with the SoLR arrangements. The SoLR arrangements can be reviewed and amended from time to time.
- 2.7 As part of the procedures outlined in the SoLR arrangements, the UR, SoLRs, DNOs and CCNI are each required to have individual SoLR Response Plans in place. These response plans set out the internal processes that will ensure compliance with the agreed SoLR arrangements.
- 2.8 The SoLR arrangements were developed and underpinned by a number of assumptions which were agreed with industry participants at the gas industry supplier forum. The key assumptions agreed include:

- a) The UR would designate the following gas suppliers as the SoLR in each relevant Network Area:
 - the incumbent gas supplier in the PNGL distribution network area (i.e. SSE Airtricity Gas Supply (NI) Limited (SSE Airtricity)) will be the SoLR;
 - the incumbent gas supplier in the feDL distribution network area (i.e. firmus energy (Supply) Limited (firmus energy)) will be the SoLR; and
 - the Commissioning User¹ for new domestic connections in the SGN NG distribution network area (i.e. SSE Airtricity) will be the SoLR.
- b) SSE Airtricity and firmus energy will not be the defaulting supplier in any distribution network area because they are the incumbent suppliers in their respective areas; and,
- c) The transfer process following a SoLR event will be the universal method within each distribution network area, i.e. all customers of the defaulting gas supplier will be transferred to a single gas supplier within each distribution network area. (Note: the total customers will only be transferred to more than one supplier where the defaulting supplier has customers in more than one distribution network area).

2.9 The assumptions above were used in the development of the SoLR arrangements to enable the relevant SoLR(s) and DNO(s) to make detailed and thorough preparations in advance of any SoLR event occurring, including appropriate system development.

2.10 The SoLR arrangements include detailed processes for communications between the UR, the defaulting gas supplier, the SoLR(s), the DNO(s) and GMO NI, for the purposes of achieving the requirements of the Regulations in the event of a SoLR situation. This includes the process for communicating with customers of the defaulting gas supplier throughout the SoLR event.

2.11 The SoLR arrangements will apply to all gas distribution network areas within NI.

2.12 The SoLR arrangements will only be implemented in the event that UR issues a Notice that it intends to revoke a gas supply licence of a supplier that is actively supplying customers in one or more distribution network area.

¹The Commissioning User for new domestic connections in the West distribution network area is defined as SSE Airtricity in SGN Natural Gas Limited's Domestic New Connection Procedures, 1st June 2016.

- 2.13 If there is a failure of a gas supply company as per the circumstances outlined in Schedule 2 of its licence, the UR will issue a written Notice to revoke the supply licence and the UR and all industry participants will follow the agreed SoLR arrangements.

Initiation of SoLR event

- 2.14 The UR will issue written Notice of its intention to revoke the supply licence of a gas supplier (“the defaulting supplier”). This Notice will include the reason for the revocation and the date and time (“Day 0”) at which the revocation will become effective. The period of notice (30 days or 24 hours) will reflect the situation and will strictly adhere to the conditions outlined in Schedule 2 of the gas supply licence.
- 2.15 Along with the Notice provided to the defaulting supplier, the UR will, at that stage, request information from the defaulting supplier (such as customer numbers and type).
- 2.16 Immediately after issuing the Notice, the UR will confidentially contact GMO NI, each relevant DNO and each SoLR, advising the appropriate parties that a SoLR event is potentially due to commence immanently. The UR will also confidentially contact CCNI and the Department for the Economy (DfE).
- 2.17 The UR will engage in active dialogue with the relevant DNO(s) and the SoLR(s), outlining the scale of the SoLR event. This information will include, where possible, detail on the size of the defaulting supplier’s supply meter point portfolio and whether the defaulting supplier is active in the domestic credit, domestic prepayment Quantum or Libra market and the number of I&C connections affected.
- 2.18 The UR will be responsible for maintaining regular contact with GMO NI, the relevant DNO(s) and the SoLR(s) during the period from Notice of revocation until Day 0. Where a 30 day notice of revocation is required, the UR will arrange individual and/or group meetings with GMO NI, DNO(s) and SoLR(s).
- 2.19 Where circumstances change, such that the UR decides that it will not proceed with the licence revocation, then the UR will provide Notice that the revocation will not proceed and that a SoLR event has not been initiated. This Notice will be

issued to the defaulting supplier by email and by post. Immediately after issuing this Notice, the UR will contact GMO NI, each DNO and each SoLR, both verbally and formally in writing, to advise that the licence revocation will not proceed and that a SoLR event has not been initiated. The UR will also advise CCNI and DfE.

Revocation of supply licence

- 2.20 The UR will issue a written Notice that the supply licence of the defaulting supplier has been revoked. This Notice will confirm that the revocation is now effective (i.e. “Day 0”). It will include a reference to the Notice of intention that was given previously and state the reason for the revocation. The Notice of revocation will be issued to the defaulting supplier by email and post.
- 2.21 The UR will publish a Notice that the defaulting supplier’s licence has been revoked on the UR’s website. A further statement of reasons may be included in this Notice or may be published by the UR as soon as reasonable after this Notice is issued. This Notice will trigger a SoLR event.

SoLR duties

- 2.22 The duties of the SoLR were consulted on as part of the March 2011 [consultation](#).
- 2.23 As outlined in the 2012 [decision paper](#), the specific role of the SoLR is to manage the transfer of the defaulting supplier’s portfolio of supply meter points and maintain normal conditions of supply. This will ensure continuity of gas supply for non-domestic and domestic customers connected to the gas network. This overarching principle remains the foundation of the current SoLR arrangements.
- 2.24 The key SoLR duties can be summarised as follows:
- a) Based on the defaulting supplier’s portfolio, the SoLR will identify if they require additional entry capacity with GMO NI. The SoLR may be required to increase their credit support with GMO NI for the purposes of their transmission commodity financial security requirements. If additional credit support is not required then the SoLR will secure the additional capacity as required.

- b) The SoLR will issue letters to all affected customers (“SoLR customers”) within 5 business days (of receipt of information), outlining tariff information and T&Cs. The letter will also include the following:
 - Information on any actions that the customer is required to complete;
 - Confirmation that the customer can switch to an alternative supplier (after the lock-in period has expired) if they so wish. The SoLR will provide details of all other relevant suppliers and the timelines for when the customer can switch; and
 - Information on how the SoLR will obtain a meter reading and when the first meter reading will take place. The letter will advise customers how they can obtain their own meter reading and provide the necessary information to the SoLR.

- c) From Day 0, the contractual arrangements between the SoLR and each customer transferred to them through the SoLR arrangements will be delivered under the Deemed Contracts Scheme. The SoLR is responsible for making arrangements to progress each customer from a Deemed Contract to standard terms and conditions, pursuant to Licence Condition 2.1.8(b) of gas supply licences.

- d) The SoLR will charge the SoLR customers based on the arrangements outlined later in section 3 of this information paper.

SoLR cost recovery

- 2.25 In fulfilling the role of the SoLR, the UR acknowledges that the SoLR supplier may incur additional costs when delivering a SoLR event. With this in mind, the SoLR cost recovery mechanism has been developed and agreed among all parties.
- 2.26 The principles for SoLR cost recovery are as follows:
- a) Reasonable costs of the SoLR will be recoverable through the cost recovery mechanism if a SoLR event occurs (for example, costs relating to additional meter reading, costs associated with communicating with the individual customers that have been transferred and the cost of supplying the gas to prepayment metered customers who had credit remaining on their meters have been addressed). There will be some costs that will be charged directly to customers and therefore are not recoverable through the cost recovery mechanism (for example, gas costs for large I&C customers over the price-

regulated threshold, as detailed in Section 3).

- b) The UR will determine the total efficient and reasonable costs allowed for each SoLR after a SoLR event has occurred.
- c) The reasonable SoLR costs incurred by the SoLR in each Distribution Network area will be recovered through the relevant DNO in that area. This means:
 - The allowed costs for the SoLR in the PNGL distribution network area will be recovered through PNGL's conveyance charges;
 - The allowed costs for the SoLR in the feDL distribution network area will be recovered through feDL's conveyance charges; and
 - The allowed costs for the SoLR in the SGN NG distribution network area will be recovered through SGN NG's conveyance charges.
- d) As set out in paragraph 2A(8) of the Gas (Supplier of Last Resort) Regulations (Northern Ireland) 2009², any direction from the UR which initiates a SoLR event will cease to have effect six months (or earlier if specified in the Direction) after the date of the Direction. Any costs incurred after the direction ceases to have effect cannot therefore be claimed under the recovery mechanism.

Process for SoLR(s) to recover costs

- 2.27 When the UR issues a direction to initiate a SoLR event, the SoLR will be expected to keep a full, clear and detailed account of the necessary and efficient costs it incurs in relation to that SoLR event and for which it intends to seek cost recovery from the relevant DNO. This is referred to as a claim for a Last Resort Supply Payment.
- 2.28 If a SoLR wishes to make a claim for a Last Resort Supply Payment, it must submit detail on the costs being claimed to UR within 6 months from the date that the Last Resort Supply Direction ceases to have effect. The claim must include calculations of the amount claimed along with detailed and clear information to support the calculations. This will allow the UR to undertake a full and transparent regulatory assessment of the costs, which will also include:

² Gas (Supplier of Last Resort) Regulations (Northern Ireland) 2009:
<http://www.legislation.gov.uk/nisr/2009/412/made/data.pdf>

- The UR will consider the costs submitted by each SoLR and may request additional information from the SoLR(s) or other parties when reviewing the cost submissions; and
- The UR will consider other factors when reviewing the cost submissions (e.g. the number and type of customers gained by the SoLR, other competitors in the distribution network area and the likelihood that the SoLR will retain the SoLR customers).

2.29 Within 90 days of receiving a claim for a Last Resort Supply Payment, the UR will determine whether the circumstances warrant a Last Resort Supply Payment, and determine a reasonable cost allowance for each SoLR. The UR will give written consent to each SoLR, clearly stating the amount of the allowed costs.

SoLR legal obligations

2.30 The gas SoLR arrangements are not intended to, or should not be deemed to, constitute an exemption from any party's legal obligations to comply with any relevant legislation, statute, statutory instrument, regulation or order (or provision thereof), or any subordinate legislation.

3. Supplier of Last Resort agreed industry principles

Tariffs and lock-in period

Domestic and small I&C customers

- 3.1 All domestic customers and any small I&C customers with annual consumption which is less than the price-regulated threshold³ will be placed on the SoLR's regulated tariff from Day 0. These prices are regulated, so customers can be assured that they are representative of the costs incurred for the efficient supply of gas.
- 3.2 A 90 day maximum lock-in period will apply to these customers.⁴ During the lock-in period the SoLR customers will not be allowed to switch to an alternative supplier unless specifically agreed by the customer and the SoLR. Customers will remain on the price regulated tariffs for the duration of the lock-in period. The purpose of the lock-in period is to allow the SoLR a period of settling-in time to secure meter readings, engage with customers and set up individual customer accounts. The account set up process for gas is manual, and, depending on the number of customers involved in the SoLR event, it may take considerable resource to ensure that all affected customers are established on the SoLR's systems.

Large I&C customers over the price-regulated threshold

- 3.3 Large I&C customers with annual consumption which is more than the price-regulated threshold will be charged a pass-through tariff from Day 0. The tariff will be calculated based on: the gas costs at the time of the SoLR event; the pass through network costs; plus operating costs and margin. The level of margin will

³ The price regulated threshold is set by the UR in the supply price controls for SSE Airtricity Gas Supply (NI) Ltd and firmus energy (Supply) Ltd. The SoLR will use the meterpoint information provided by the DNO at the time of the SoLR event to determine whether the customer is under or over the price-regulated threshold.

⁴ Note that some Daily Metered sites have sub-deduct meters that are Non-Daily Metered (NDM). If any such site is involved in a SoLR event then the lock-in period will not apply to the NDM sub-deduct meters, regardless of the consumption at each NDM sub-deduct meter.

not exceed the margin that is set in the relevant SoLR's price control for regulated customers.

- 3.4 Under the Distribution Network Codes there is a minimum period of 15 business days to complete a switch, therefore these customers will remain with the SoLR for at least 15 business days but may then switch supplier if they wish.

Credit and Debt balances

- 3.5 If a customer has a credit balance on their account with the defaulting supplier, this is deemed to be an issue between the customer and the defaulting supplier/administrator. This does not apply to credit on a prepayment meter but applies to any other credit that has been accumulated with the defaulting supplier (for example over-payments on previous gas bills, payments towards siteworks jobs that have not been completed, any security deposits etc.). There have been exceptions agreed for prepayment meters, which are set out below.
- 3.6 If a customer has a debt balance on their account with the defaulting supplier, this is deemed to be an issue between the customer and the defaulting supplier/administrator. This decision applies to debt that has been accumulated in any way with the defaulting supplier.
- 3.7 Credit and debt is managed on the various meter types as follows:
- **Credit Meters:** any credit or debt that the customer has with the defaulting supplier will be between the customer and defaulting supplier/administrator. The customer will start with a zero balance with the SoLR.
 - **Libra Prepayment Meter:** the customer will keep any credit on their meter. Any top ups made by the customer will have been converted to a volume of gas at the point of the vend and then transferred to the meter by placing the top up card into the meter. The SoLR will therefore have to supply gas to the customer for the remaining amount of credit on the meter.
 - **Libra Prepayment Meter being used for Debt Recovery (in feDL distribution network area):** the customer will keep any credit on their meter. Any top ups made by the customer will have been converted to a volume of gas at the point of the vend and an amount for debt would have been

deducted at this point, the volume of gas is then transferred to the meter by placing the top up card into meter. The SoLR will therefore have to supply the gas to the customer for the remaining amount of credit on the meter. Any debt remaining on the customer's account with the defaulting supplier is between the customer and the defaulting supplier/administrator. When the customer picks up the change of supplier message at Paypoint they will be charged the SoLR's tariff for future vends. The SoLR will then arrange for an engineer to visit the property to remove the debt from the Libra meter to stop further recovery.

- **Quantum Prepayment Meter (in PNGL distribution network area):** the customer will keep any credit on their meter. Any top ups made by the customer will have been transferred to the meter (by placing the top up card into the meter) as a monetary amount. Gas will continue to be used at the defaulting supplier's tariff rate until the point when the customer picks up the change of supplier message. From this point all credit on the meter will be used at the SoLR's tariff rate. The SoLR will send a message to the meter (through Siemens) to clear any debt amount on the meter as any remaining debt amount will be between the customer and the defaulting supplier/administrator. The SoLR will have to supply gas to the customer for the remaining amount of credit on the meter.

4. Issues for future consideration

- 4.1 As stated earlier in the paper, a number of assumptions were made in order to develop the necessary SoLR arrangements. Collectively, the UR agreed with industry and CCNI to review a number of these assumptions as part of a day 2 work stream.
- 4.2 Credit balances will be reviewed as part of the day 2 work stream. The Ofgem decision paper⁵ on dealing with supplier insolvency and the UR electricity market position on credit balances⁶ will be given due consideration in this work stream.
- 4.3 The UR will work with the gas industry over the coming months to ensure that robust testing of the SoLR arrangements and processes is undertaken where feasible. The timelines and details of testing will be agreed with industry participants via the gas supplier forum.

⁵ [Ofgem Decision](#) on approach to dealing with supplier insolvency and its consequences for customers, 21 October 2016.

⁶ [UR update](#) on return of credit to Open Electric customers, 11 January 2017.