

## **Gas Supplier of Last Resort: Guiding Considerations for Implementation**

### **Consultation Paper March 2011**

Phoenix Natural Gas (PNG) welcomes the opportunity to respond to the Utility Regulator's (UR) consultation paper on Gas Supplier of Last Resort. PNG agrees that having procedures and processes in place for ensuring continuity of gas supply if a gas supply company fails is critical, for both consumers and for industry participants. We further believe that any agreed principles must support the continued development of the natural gas industry in Northern Ireland (NI) and provide the necessary assurance to those businesses that have already made a substantial investment in the industry. The appointment of a supplier of last resort must ensure that any network operator involved in the conveyance of gas can continue to recover the cost of developing, operating and maintaining their networks in the event of a failed supplier.

PNG operates the gas distribution network that brings the benefits of natural gas to over 280,000 properties in the Greater Belfast area. These properties and indeed all properties throughout NI connectable to a natural gas network expect to receive a continuous supply of natural gas. We therefore welcome this consultation and the opportunity it allows for UR to develop appropriate and informed principles for selecting and appointing a gas supplier(s) of last resort following the introduction of the Gas (Supplier of Last Resort) Regulations in January 2010 to manage this consumer expectation.

PNG understands that in Great Britain (GB) suppliers volunteer for the role of supplier of last resort and that in NI a shortlist of suppliers who have shown willingness and the ability to be a supplier of last resort is maintained for the electricity market. PNG believes that these current industry practices should be considered for the NI gas market with a supplier's ability to be a gas supplier of last resort a primary consideration. We also believe it is imperative that the views and comments of suppliers expected to fulfil this role inform UR's principles for the appointment of the supplier(s) of last resort to ensure that the integrity of the natural gas industry is not impacted in the event of a failed supplier.

We also understand that in GB Ofgem do not consider that the failed supplier's customers should be protected from reasonable price increases while in the NI electricity market any excess costs are recovered through a public service order. It is imperative that UR and suppliers discuss and agree on an appropriate cost recovery mechanism that does not unduly discriminate against the consumer or supplier of last resort.

While PNG welcomes the expeditious outcome of this consultation and the security this will provide

for the future of the natural gas industry in NI, UR should be mindful that there are other operational issues which need to be considered in tandem e.g.

- The current Supply Point Administration system used to manage the assignment of a gas supplier to a specific supply meter point (SMP) and the customer switching system were developed to meet the requirements of supply competition activities in Greater Belfast and are not fully automated. A review of both systems will be necessary to understand the implications of an instantaneous transfer of a large number of SMPs between suppliers from both an operational and a PNG resource point of view. The systems will also need to be reviewed to understand whether they can facilitate allocating SMPs to more than one supplier of last resort. Processes will also need to be developed to account for those SMPs which may be in the process of switching between suppliers or connecting to the natural gas network if one of the suppliers fails.
- Paypoint and Siemens will need to be engaged with to understand whether each of the considerations within the consultation paper are technically feasible e.g. will their systems facilitate allocation of PAYG consumers to more than one supplier of last resort? What are the contractual and legal implications for a supplier who takes over PAYG consumers from the failed supplier?
- The PNG Distribution Network Code does not currently facilitate immediate switching of customers. This will involve legal drafting and a formal modification process.

The above are only a snapshot of the high level operational issues yet to be considered. Examples of other areas include the allocation of transmission capacity at Moffat and the impact of any supplier of last resort legislation as Common Arrangements for Gas are developed.

PNG will be happy to engage with UR to discuss any such issues at the appropriate time.