

SUPPLIER OF LAST RESORT

The purpose of this note is to provide greater clarity in discussions about the supplier's role in continuity/security of supply matters, and in particular the concept of Supplier of Last Resort (SoLR).

A number of circumstances can be envisaged when considering continuity/security of supply, particularly for domestic customers:

- Continuity of supply when a supplier becomes bankrupt
- Security of supply in the event of market shortage
- Security of supply in the event of national/regional emergency

In only the first of these does the concept of Supplier of Last Resort properly apply.

This note seeks to distinguish these three issues, in order that the concept of SoLR can be better understood.

1. Continuity of supply when a supplier becomes bankrupt

Faced with the (impending) bankruptcy of a supplier, SoLR arrangements can be made for one or more other suppliers to be nominated to take over the responsibilities of the supplier who becomes bankrupt. These arrangements are essential consumer protection for the domestic consumer who might otherwise not have continuity of supply and related services.

SoLR arrangements are vital for small customers, and the need for them diminishes with the size of the load. Larger customers are better able to select an alternative supplier for themselves in the event of bankruptcy, and are able to deal with the resulting commercial/contractual position.

The importance of the words 'last resort' must not be overlooked. SoLR arrangements should only be invoked when the possibility of other measures (generally contractual sale of the failed supplier's customer base) has been exhausted.

2. Security of supply in the event of market shortage

This is typically a strategic issue; how to ensure that the market has the right mechanisms and incentives to minimise the risk of market imbalance.

The issue is thus addressed in individual countries' grid codes and balancing arrangements. In a properly functioning market, pricing signals and a sound regulatory framework will generally be sufficient to deal with market shortages, and security of supply e.g. on the coldest day is seen as a market/industry concern, rather than a matter that can be solved by a single supplier.

At the EU level, there will be an increasing role for the Community in ensuring the proper functioning of the internal market and that pricing signals are given to encourage resolution of bottlenecks and investment in interconnection.

In the short/medium term, the development of a liquid wholesale market through the creation of trading hubs may be expected to contribute to such security of supply, as in the longer term will greater levels of interconnection.

3. Security of supply in the event of national/regional emergency

Setting the legislative framework for security of supply remains a matter of national policy. Whatever normal market mechanisms are in place, national emergencies and other crises may be of such a scale/impact that immediate operational measures are required to ensure that vulnerable consumers/applications are protected. It is, therefore, essential that national authorities, suppliers, and TSOs agree on the emergency measures that are to be implemented and the circumstances when there are appropriate.

From a supplier perspective, the key concerns in relation to national/regional emergencies are:

- Clarity on the supplier's obligations in such circumstances, and the roles of other market players;
- Clear communication in emergency situations, and agreed messages for customers;
- Clearly understood and impartial classification of priority customers/priority uses to be safeguarded;
- Clear escalation processes, so that crises can be dealt with in a proportionate way; and
- Clear penalties on those who disobey or otherwise undermine the actions agreed as necessary e.g. failure to interrupt non-priority uses of gas.