

Why gas shippers are important

What is a shipper?

A gas shipper is a company that purchases gas and arranges for the transportation of that volume through the GB pipeline network.

They undertake this service on behalf of suppliers – domestic and non-domestic alike - to allow for the delivery of gas to customers.

To provide this service, they book capacity on the pipeline network. Some suppliers have their own shipper functions, but others contract with third parties.

Why is it significant when a shipper ceases providing its services?

Shippers play an important role within the industry given the suppliers effectively cannot sell gas to customers without them.

Unlike when a supplier exits and the process is managed through the Supplier of Last Resort (SoLR) process, there is no corresponding arrangement for shippers, which puts the industry in uncharted regulatory territory.

Those suppliers that have contracted with such a shipper will need to promptly make alternative contractual arrangements.



What does this mean for suppliers?

A supplier that does not have a shipper agreement in place is in breach of its licence.

Under industry legislation, a supplier without a shipper will effectively have to pay National Grid (in its role as Transporter) for the cost incurred.

This will be at the corresponding gas imbalance price, which – in the past month – has been equivalent to a rate approximately three times the implied wholesale gas price in the Winter 2021-22 default tariff cap.

Suppliers with existing contracts with a shipper that ceases providing its services could be forced to unwind their positions and re-hedge them with a new shipper – which would again incur a cost (assuming such an action was possible).

What does this mean for customers?



In theory, the direct impact on customers will be limited as gas will continue to flow.



However, the increased use of imbalance will be reflected in wider gas system costs and spread across all users.



If a supplier is forced to exit the market customers will need a new supplier, either appointed by Ofgem through SoLR for domestic customers or through a new supply contract with a different supplier for non-domestic customers.

