



Making a positive difference
for energy consumers

All interested parties

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Dear colleague

Appointment of EDF as Supplier of Last Resort

On 16 August 2019, we announced¹ that we had appointed EDF Energy Customers Limited (“**EDF**”) as the new supplier for Solarplicity Supply Limited’s (“**Solarplicity**”) gas and electricity customers and issued our decision to revoke Solarplicity’s gas and electricity licences,² following an earlier announcement that Solarplicity had ceased trading.³

We appointed EDF as the Supplier of Last Resort (“**SoLR**”) for Solarplicity’s customers because, taking into account all the relevant factors that are set out below, we considered their approach would ensure a good outcome for both the customers of Solarplicity, and all customers. This letter summarises the background to this process, and the reasons⁴ for our decision⁵ to appoint EDF.⁶ Further information on Ofgem’s safety net to make sure customers are protected if their supplier goes out of business is available on our website.⁷

The SoLR process

Electricity and gas is supplied through markets and on the basis of a competitive process in Great Britain. While competition has the potential to bring many benefits to consumers, a competitive process occasionally leads to companies failing. This applies as much in relation to the gas and electricity supply markets as it does to other markets.

When a supplier fails, our focus is to ensure continuity of supply for its customers and to avoid wider negative effects on the market. Such wider effects stem from the fact that, a

¹ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-appoints-edf-energy-take-customers-solarplicity>

² <https://www.ofgem.gov.uk/publications-and-updates/solarplicity-supply-limited-notice-revocation-electricity-supply-licence> and <https://www.ofgem.gov.uk/publications-and-updates/solarplicity-supply-limited-notice-revocation-gas-supply-licence>

³ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-protects-customers-failed-supplier-solarplicity>

⁴ This letter constitutes the notice of our reasons for the purposes of section 38A of the Gas Act 1986 and section 49A of the Electricity Act 1989.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-edf-energy-customers-limited-electricity-supplier-last-resort> and <https://www.ofgem.gov.uk/publications-and-updates/direction-appoint-edf-energy-customers-limited-gas-supplier-last-resort>.

⁶ The obligation for a supplier (such as EDF) to comply with such an appointment derives from standard licence condition 8 of each supplier’s gas and electricity supply licences and is intended to ensure a universal service for Great British energy consumers (for further information on this universal service, see Articles 3(3) of the EU Directives 2009/72/EC and 2009/73/EC). The duties of a SoLR are further described in our SoLR guidance and Ofgem’s direction notice contains specific details of EDF’s obligations to supply Solarplicity’s former customers.

⁷ <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/extra-help-energy-services/ofgem-safety-net-if-your-energy-supplier-goes-out-business>.

failing/failed supplier's consumers will continue to use energy that the supplier cannot pay for. This will result in costs that are mutualised across other industry participants until a SoLR is appointed for these customers. There is also the real risk that, if a supplier fails without urgent intervention, consumer trust and confidence in the energy market would be materially damaged. Ofgem can ensure continuity of supply to the failed supplier's customers and prevent these wider negative effects by appointing a SoLR to supply the failed supplier's customers at very short notice.⁸ This process also ensures that the credit balances of the failed supplier's customers are protected.

We can direct any licensee to be a SoLR but to ensure we appoint the company we think is best placed to take on this role, we ask companies interested in being the SoLR to provide us with information including how they will cope with the bulk increase in purchasing power and customer service requirements, how they will treat customer credit balances, and the tariff they will put the customers on. Where possible, we also seek to appoint a company which has volunteered to act as a SoLR.

Further information on the criteria that we apply in selecting a suitable SoLR is contained in our published SoLR guidance.⁹

Background to this decision

In August 2019, Solarplicity confirmed to us that it was in severe financial difficulties, at which point we prepared to commence the SoLR process, to ensure consumers were protected.

In accordance with our standard process and published SoLR guidance, we undertook the following steps leading up to the decision we announced on 16 August 2019:

- We sought information from Solarplicity on its customer base and arrangements for supply, for the purposes of running the SoLR process,
- We sent information requests¹⁰ to a number of licensed gas and electricity suppliers to explain the terms on which they would be appointed a SoLR. Among other things, we asked suppliers for information on their willingness to act as a SoLR, their capability to supply the customers and the tariff and other terms they proposed to offer customers if successful, and
- We sought relevant information from network licensees, and industry central systems bodies.¹¹

Our decision

On 16 August 2019, we announced our decision to appoint EDF as the SoLR for Solarplicity's customers, in order to ensure continuity of supplies of gas and electricity to Solarplicity's customers, and payment of appropriate charges under the industry arrangements. We also gave notice of our decision to revoke Solarplicity's licences.¹²

⁸ The obligation for a supplier to comply with a Last Resort Supply Direction ("LRSD") derives from standard licence condition 8 of the gas and electricity supply licences and is intended to ensure a universal service for Great British energy consumers (for further information on this universal service, see Articles 3(3) of the EU Directives 2009/72/EC and 2009/73/EC).

⁹ https://www.ofgem.gov.uk/system/files/docs/2016/10/solr_revised_guidance_final_21-10-2016.pdf.

¹⁰ In accordance with condition 5 of the Standard Licence Conditions for gas and electricity supply.

¹¹ Elexon for electricity, Xoserve for gas and the Data Communications Company for enrolled smart meters.

¹² Revocation of the supply licence is necessary for the SoLR arrangements to come into effect. The notices to revoke Solarplicity's licences are published on our website: <https://www.ofgem.gov.uk/publications-and-updates/solarplicity-supply-limited-notice-revocation-electricity-supply-licence> and <https://www.ofgem.gov.uk/publications-and-updates/solarplicity-supply-limited-notice-revocation-gas-supply-licence>. The licence revocations and LRSDs are effective as of 17 August 2019.

In line with our published SoLR guidance, we considered all information submitted by suppliers against a set of criteria. We have described the criteria we used in the SoLR selection process in the annex to this letter. All responses from suppliers contained confidential information. We have not released this information as to do so would be likely to prejudice future potential SoLR processes.

The decision to appoint a SoLR involves Ofgem making a judgement taking into account the full range of criteria and all the information provided by suppliers. In total, we received 8 submissions from suppliers, setting out the terms they would offer to customers if they were to be appointed as the SoLR. Of the 8 responses, 6 were from suppliers that we mandated to reply to our information request under standard condition 5 of their licences¹³. Below, we have set out the material factors on which we based our decision that EDF's proposal was the best outcome for customers.

Overall, EDF provided suitable evidence in all areas, demonstrating their capability to perform the role of a SoLR.

Volunteers for the role of SoLR

As set out in our SoLR guidance,¹⁴ our preference is given to suppliers who volunteer to undertake the role of SoLR. Of the submissions we received, none confirmed they wished to volunteer for this role. We reviewed all submissions received in order to identify the best outcome for customers and ensure a universal service for GB energy consumers¹⁵.

Honouring account balances

As per our SoLR guidance, Ofgem operates a safety net through the SoLR process which protects domestic consumers' credit balances.¹⁶ We recognise that a key concern for customers of Solarplicity (both existing and past customers who may still have been owed money by Solarplicity) would be whether their credit balances would be honoured. Indeed after ensuring continuity of supply, protecting domestic consumers' money (existing and past customers), was one of the most important factors in our decision.

Of the submissions we received from suppliers, a majority – including EDF – confirmed they would honour the credit balances for Solarplicity's domestic customers. Given the implications for overall consumer confidence, as noted above, we also considered whether suppliers would honour the credit balances of former Solarplicity customers who had switched away but were still due a credit refund. A majority – including EDF – confirmed they would honour these credit refunds for domestic consumers. None of the submissions we received offered to honour the credit balances of non domestic customers.¹⁷

Use of the industry levy

¹³ Our current practice is to mandate the largest suppliers to reply to our information request, and the other potential SoLR volunteers receive voluntary information requests. While it is our preference to appoint a supplier that has volunteered to act as the SoLR, we have powers to appoint any supplier as a SoLR provided that we are satisfied that to do so would not significantly prejudice its ability to continue to supply gas and electricity to its own customers and fulfil its contractual obligations for that supply.

¹⁴ See paragraphs 3.2 to 3.4 of our SoLR guidance.

¹⁵ For further information on this universal service, see Articles 3(3) of the EU Directives 2009/72/EC and 2009/73/EC.

¹⁶ See paragraphs 3.23 to 3.25 of our SoLR guidance and Ofgem's decision on our approach to dealing with supplier insolvency and its consequence for consumers, published in June 2016, a copy of which is available here: <https://www.ofgem.gov.uk/publications-and-updates/our-proposed-approach-dealing-supplier-insolvency-and-its-consequences-customers>.

¹⁷ Ofgem's safety net protects all customers' energy supplies, and all customers will be transferred to the appointed SoLR (i.e., EDF). Business customers' credit balances are not protected under the safety net. Business customers should contact the company's administrator for information on how to seek reimbursement of their credit balances.

The gas and electricity supply licences allow the SoLR to claim for reasonable additional costs incurred in taking on the failed supplier's customers through an industry levy or "Last Resort Supply Payment" where Ofgem gives its consent.¹⁸

Our SoLR guidance states that our preference is for the SoLR not to make a claim under the levy (or to minimise the amount of such claim).¹⁹ However, where we impose a direction on a supplier (such as EDF) to comply with a direction to supply customers of a failed supplier, we anticipate that the supplier will request our consent to recover the costs it has reasonably incurred in complying with our direction, unless it has waived its ability to do so.

All of the suppliers who were willing to honour credit balances indicated their intention to use the levy to cover all the costs of honouring credit balances. These suppliers also stated their intention to use the levy to cover a range of additional costs they expected to incur if appointed as SoLR. The majority of suppliers, including EDF, provided indicative supporting information on the types of costs it expected to recover, if directed by us to be the SoLR.

Price

Our SoLR guidance states that the deemed tariff onto which the customers of the failed supplier are moved must not reflect more than the reasonable costs of supply (including costs attributable to the purchase of gas or electricity at short notice), together with a reasonable profit.²⁰ All suppliers, including EDF, proposed deemed tariffs in line with the domestic price cap, thus meeting this criterion. We were satisfied that EDF also met this criterion in relation to the tariff for non-domestic customers.

Customer service

It is to be expected that the customers of a failed supplier, who have been switched through the SoLR process, will have enquiries for their new supplier. Therefore, it is important that the SoLR has a robust approach for managing this increase in customer enquiries and for proactively informing their new customers about their new supply arrangements and available options.²¹ In addition, to ensure a smooth transition for customers of the failed supplier, a SoLR will need to have adequate systems and processes in place for managing a large volume of new customer and supply point data in a timely way.

Suppliers put forward a range of solutions for "onboarding" Solarplicity's customers; we closely assessed each of these. EDF was able to provide a sufficient level of reassurance regarding continuity, which we concluded would be in the best interests of customers. This was a strong element of their submission and compared favourably to other suppliers.

Ability to supply gas and electricity and industry processes

It is essential that the SoLR can comfortably manage the extra costs arising from sourcing the energy required to supply the failed supplier's customers without jeopardising supply to its existing customers.²² In making our decision, we considered a range of relevant factors which indicated the ability of the suppliers to absorb these costs, including:

- access to working capital and any guarantees in place;
- access to the relevant wholesale markets and products and management of wholesale energy trading and balancing;

¹⁸ Electricity and gas suppliers' licences permit them (in some circumstances) to make a claim for the otherwise unrecoverable costs that they have incurred in complying with our direction that they act as a SoLR. This would be paid by a "levy" on relevant gas transporters and electricity distributors who would pass these costs on to network users through their Use of System charges.

¹⁹ See paragraphs 3.5 to 3.7 of our SoLR guidance.

²⁰ See paragraphs 3.23 to 3.25 of our SoLR guidance, and standard licence conditions 8.6 and 8.7 of the gas and electricity supply licences.

²¹ See paragraphs 3.14 to 3.22 of our SoLR guidance.

²² See paragraphs 3.8 to 3.13 of our SoLR guidance.

- the amount of headroom the bidder has – i.e., the degree to which they have already covered their liabilities (in terms of energy) for this winter and the rest of the year; and
- their strategy to cover the new energy they will need to buy to cover the demand of Solarplicity’s customers

We considered that EDF provided a sufficient explanation of its capacity and capability to manage the purchasing requirements relating to Solarplicity’s customers. In addition, EDF have a history of adequate compliance with industry code requirements for gas transportation and electricity settlement and distribution, and smart metering.

Conclusion

Considering all of the above in the round and in line with our published SoLR guidance, and taking into account our statutory duties including our principal objective to protect the interests of consumers, we reached the view that it would be in customers’ best interests for EDF to be appointed the SoLR for Solarplicity’s customers.

Yours faithfully,

Lesley Nugent
Deputy Director, Licensing Frameworks

Annex 1: Summary of SoLR selection criteria

In our SoLR guidance, we set out the selection criteria we will use to determine which supplier to appoint as the SoLR. This annex sets out the categories of questions asked of suppliers to gather the necessary information for us to consider in making the decision to appoint a Supplier of Last Resort.

Ofgem Preferences

1. Other things being equal, preference will be given to:
 - a. suppliers who volunteer for the role of SoLR
 - b. suppliers who honour, or compensate for, credit balances of the **existing customers** of the failing supplier
 - c. suppliers who provide protection through payments to **former customers** of the failing supplier with a closed credit account balance
 - d. suppliers who state that they will not make a claim for a Last Resort Supply Payment pursuant to standard condition 9 of the supply licence, and where suppliers who do not waive their right to a levy claim, minimise the expected size of that claim, and commit to exclude costs which they expect to incur if appointed SoLR from any future claim²³
 - e. suppliers who minimise the extent of price increases – if any – for the customers of the failing supplier.

Core Criteria

Ability to supply and industry codes

2. The SoLR should have arrangements in place to source the additional gas and electricity required for any customers acquired as part of a Last Resort Supply Direction, while enabling it to continue to supply its existing customers.
3. The SoLR's shipper must have signed the appropriate Network Codes for the licensed gas transporters on whose networks the Licensee may be a SoLR.
4. The Licensee must have entered into Distribution Use of System Agreements with all distribution companies in whose areas it may be a SoLR.
5. The Licensee must have acceded to the Smart Energy Code.
6. SoLR should be a DCC user.
7. The SoLR or its shipper must be able to comply with current credit cover rules of industry codes.

Customer engagement

8. What arrangements the SoLR will make to deal with the customers of the failing supplier, including:
 - a. how customers will be informed about what has happened and provided with named contact details that they can use to ask any questions
 - b. how customers' written and telephone enquiries will be dealt with
 - c. how the SoLR will ensure that customers will receive a timely and accurate bill
 - d. how communication with any smart meters will be managed
 - e. how customers will be made aware of their options to sign up to a contract with the Licensee or another supplier
 - f. information on recent customer service standards and on any recent investigation or enforcement action in connection with customer service functions
9. The SoLR must be able to operate the relevant change of supplier processes to minimise disruption to new and existing customers and other industry participants
10. The SoLR must have adequate arrangements in place to deal with customer queries (including both new and existing customers)

²³ Although we recognise that the circumstances of a specific supplier failure may justify a SoLR making a claim, an efficient SoLR should be able to minimise its exposure to these costs