

Electricity Suppliers, Electricity
Distributors, Gas Suppliers, Gas
Transporters, and all other
interested parties

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To interested parties,

Decision on modifications regarding Last Resort Supply Payment Claims (LRSPs) for electricity supply, gas supply, electricity distribution and gas transportation licence conditions¹

On 30 December 2021, we published a statutory consultation on licence changes to facilitate the assignment of Last Resort Supply Payment Claims (LRSP). At the time we issued the statutory consultation, we were concerned both to explore the potential for licence modifications and the scope these might afford to facilitate urgent transactions which would ameliorate the price cap impact of LRSPs for the price cap review then to be announced in February 2022, and the scope for arrangements for the longer term. In that connection, we engaged with a 3rd party (as a proxy for providers of finance generally – other finance providers were unable to develop proposals before the February price cap review) and licensees about a possible transaction structure proposed by this 3rd party, as a useful way to test whether the licence modifications would in fact facilitate a new form of financing of LRSPs.

During the consultation period, we shared further drafts of our proposed licence changes with licensees and the 3rd party, building on the discussions we were having with them. This letter explains the relevant background, summarises the responses to our statutory consultation and, in light of having considered those responses, sets out our decision on modifications to the Electricity Distribution, Electricity Supply, Gas Transporter and Gas Supply licences.

In the event, we decided not to proceed with the licence modifications at that time, given the work HMG was then doing to consider ways to help households with rising energy bills.

Given that the consultation fell over the holiday period and some licensees did not receive the statutory notice with a full 28 days to respond, we also accepted formal consultation responses following the stated end of the 28 day notice period and are satisfied that we have considered all responses received from interested parties.

We have now concluded that the longer term facilitation of new forms of financing of LRSPs remains – in principle – in consumer interests and have therefore decided to proceed with the licence modifications, building on the work we did with licensees and the 3rd party to refine our initial proposals. We consider it important to do so in order to increase market liquidity, all the more so as volatility is continuing and may increase as a result of geopolitical events.

¹ Published under Sections 11A of the Electricity Act 1989 and 23 of the Gas Act 1986.

Background

The unprecedented and unexpected rise in gas and electricity prices over recent months has put energy markets under severe strain. We² are taking steps to protect the short and long-term interests of consumers, particularly in relation to the consequences of the supplier failures which those price rises have triggered. Wholesale prices continue to be volatile, particularly as a result of recent geopolitical events, and so there may be further supplier failures in 2022.

When a supplier fails, the only routes by which Ofgem can protect customers from significant harm is through the Supplier of Last Resort (**SoLR**) process³, or, where this is not feasible, through the Special Administration Regime (**SAR**).

The SoLR process allows the SoLR taking on customers to claim their net costs of doing so via the Last Resort Supply Payment (**LRSP or SoLR Levy**).⁴ Historically some SoLRs have waived their right to make that claim through the SoLR bidding processes. Recent SoLRs have not waived those rights as the recent costs associated with becoming a Supplier of Last Resort have been significant. Indeed, in order to keep the SoLR process working, Ofgem has had to speed up the Levy process and the high wholesale gas prices have led to very significant SoLR levy claims, some of which we approved in December 2021.⁵ During 2022, there are expected to be further SoLR levy claims associated with the subsequent SoLR appointments, and there will be a second wave of claims associated with SoLRs appointed in the second half of 2021.

The way in which SoLR Levies are socialised across energy consumers and paid to the SoLR means that those significant costs have been included in electricity and gas distribution charges for 2022/23, and further claims already expected to be made will, if approved, be reflected in 2023/24 network charges.

Ofgem continues to explore options for reducing the impact on consumers.

One of those options is third-party financing of the SoLR costs and SoLR Levies. Such finance could potentially achieve two policy objectives:

- Enabling greater ongoing competition in future SoLR processes (by enabling greater working capital availability); and/or
- Smoothing the impact of future SoLR levy payments on consumer bills.

The licence modifications are designed to support both of those two policy objectives. We are introducing changes to the electricity and gas supply standard conditions; electricity distribution standard condition and gas transporters standard and standard special conditions⁶ which underpin the SoLR arrangements, principally the process for making a claim for a LRSP.

The licence changes support a range of financing options, some of which would have an impact upon consumers by deferring payments by networks to later years whilst other options involve no change to the profile of payments by networks.

² The terms “the Authority”, “we” and “us” and “Ofgem” are used interchangeably in this document.

³ Customers could face various significant harms, ranging from loss of credit balances to interruptions to supply to, ultimately, wider instability in the network and wholesale markets.

⁴ Further details are available in our SoLR Levy Guidance here: [solr_revised_guidance_final_21-10-2016.pdf](#).

⁵ [Faster SOLR levy process: consents to Last Resort Supply Payments | Ofgem](#)

⁶ For consistency of licence condition wording across both the standard and the equivalent standard special licence conditions, modifications will be made to both Standard Licence Condition 48 and Standard Special Licence Condition A48.

The licence changes provide a regime for a licensee to be able to dispose of SoLR Levy claims, for example to a finance provider, with the Authority's prior approval.

We believe that third party financing is or can be, in principle, in consumers' interests. Before approving any particular assignment of claims, the Authority will further consider whether the proposed third-party finance transaction is, in principle, in customers' interests. Additionally, before approving, or approving any amendment of, any particular SoLR Levy Claim to support such financing, it would have to be satisfied that the terms of that proposal would operate in customers' interests. The Authority would consider all relevant circumstances of any proposal for this purpose and would expect to be provided with comprehensive information by the supplier and any other parties to the transaction in order to make that assessment. The Authority would expect to consider things such as any fees or interest rates, or likely rates, associated with any proposed financing transaction associated with the proposal, the terms of the proposed disposal (including the nature of the assignment and any risk allocation which may impact customers) and to be assured that a mechanism is implemented for the benefit of any refinancing to be appropriately shared with customers, where reasonable and in consumers' interest.

Summary of Responses

We received 27 responses, of which 25 were non-confidential formal responses. We received formal responses directly from 11 suppliers and shippers, directly from 8 distribution networks, and responses from other parties, including representative bodies such as ENA, INA, Energy UK and Citizens Advice. We had a series of multi-party and bilateral discussions with networks, suppliers and potential 3rd party financiers during the consultation period. The formal written responses are published alongside this document.

There was general support for the licence changes, as they enable greater ongoing competition in the SoLR processes by enabling greater working capital availability, and allow the impact on consumer bills to be smoothed over a longer time period.

Value for money

Several respondents expressed concerns that the financing costs associated with the assigned claims may not represent value for money. Several respondents argued that Ofgem would need to assess any proposed third-party financing to ensure it represents a cost effective outcome, as the use of third-party financing won't automatically result in the lowest cost funding approach.

Ofgem response

Ofgem agrees with the need to ensure value for money. Ofgem considers value for money when it appoints a SoLR and will consider value for money when it considers whether or not to consent to the assignment of a SoLR claim.

Changes to approved claims for LSRPs

Some respondents expressed concerns that, after it has approved claims for LSRPs pursuant to Condition 9 of the Electricity Supply Licence and Gas Supply Licence, Ofgem might take action to cancel, reduce or change those claims (Valid Claims) and that the risk that this might occur is a possible barrier to transactions.

Ofgem response

Ofgem recognises that:

- (a) the licence modifications it has decided to make facilitate and provide an opportunity for Suppliers of Last Resort (SoLRs) to access new forms of third party financing; and
- (b) providers of third party finance based on LRSPs will require a similar degree of certainty as SoLRs currently have that they will receive LRSPs,

and, therefore, it is in consumers' interests for Ofgem to provide guidance about its approach to some issues which may affect Valid Claims. Whilst Ofgem cannot fetter its discretion as to how it would act in all possible circumstances, we are able to provide clarification, as set below, about the types of circumstances in which we might consider amending, reducing or extinguishing a Valid Claim financed by a purchaser and/or financier of the Valid Claim(s). In approaching these issues as described below, Ofgem would necessarily take into account the interests of the providers of third party finance and LRSP Permitted Assignees.

Once Ofgem has approved a claim for LRSPs (making it a Valid Claim) and consented to an assignment to an LRSP Permitted Assignee, Ofgem would not normally expect to take further action in relation to that Valid Claim for the purpose of amending, reducing or extinguishing the Valid Claim, unless, and save to the extent that it determines that:

- (a) Ofgem was not provided with all materially relevant information that the SoLR knew or ought reasonably to have known was relevant to Ofgem's decision in connection with the claim when the claim was made, or that information provided to Ofgem was false or misleading, in any such case such that it would not have approved the claim, or the full amount of the claim, had it been provided with all such materially relevant information, or provided with complete information which was not false or misleading; [and/or]

- (b) Where the Valid Claim has been assigned to a permitted assignee in connection with a transaction, Ofgem was not provided with all materially relevant information that the SoLR and/or LRSP Permitted Assignee knew or ought reasonably to have known was relevant to Ofgem's decision in connection with the Transaction and/or the LRSP Permitted Assignee when it was asked to approve the claim and/or the Transaction and/or the assignment or disposal of rights pursuant to the Transaction, and/or the LRSP Permitted Assignee, or that information provided to Ofgem by the SoLR or LRSP Permitted Assignee (as appropriate) was false or misleading, in any such case such that it would not have approved the claim, and/or the full amount of the claim, and/or the assignment or disposal of rights and/or the Transaction and/or the permitted assignee, had it been provided with all such materially relevant information, or provided with complete information which was not false or misleading; [and/or]

- (c) The Valid Claim is to be reduced by an amount to reflect:

- (i) any proposals or undertakings by a proposed LRSP Permitted Assignee and/or any finance provider under a particular Transaction to share any re-financing gains
- (ii) any proposals or undertakings by a proposed LRSP Permitted Assignee and/or a finance provider under a particular Transaction in relation to arrangements for interest any assignment or disposal to an LRSP Permitted Assignee; [and/or]

- (d) Any person who provides an undertaking as a condition of Ofgem's approval of a Transaction and/or the assignment or disposal of rights pursuant to a Transaction fails to discharge that undertaking; [and/or]

(e) Such action is anticipated in any conditions of Ofgem's approval (including any undertakings or commitments given pursuant to such conditions) of:

- (i) the claim for LRSPs; or
- (ii) any assignment or disposal to an LRSP Permitted Assignee; [and/or]

(f) Other circumstances in which the SoLR, or where the Valid Claim has been assigned to an LRSP Permitted Assignee, that LRSP Permitted Assignee has first agreed to such adjustment, reduction or extinguishment or has otherwise agreed to such action in the future as part of the conditions of Ofgem's approval.

In any case of the types referred to above, Ofgem would act within its powers and make decisions which are, in relation to the particular circumstances, in accordance with its statutory duties and would be mindful of its duty to have regard to the need for licensees to be able to finance their licensed activities.

This clarification shall not, in respect of any licensee, affect or limit Ofgem's ability to: take enforcement or other legal action; modify or revoke any licence, give or refuse consent in relation to matters connected with any licence; apply for a special administration order; or enforce or modify any undertaking given to it, whilst recognising an LRSP Permitted Assignee's interest in receiving payment of LRSPs.

Network Licensees' payment obligations and enforcement of licences

Some respondents sought clarification as to the consequences of payment of LRSPs to LRSP Permitted Assignees. Others sought clarification on how Ofgem would approach enforcement in relation to obligations of network licensees to make LRSPs.

Ofgem response

For all LRSPs payable by gas network licensees and those above the materiality threshold payable by electricity distribution network licensees, the LRSP process has been designed to preserve the networks' cashflow position so that they are obliged to make payments in line with their corresponding increase in charges. The risk of any bad debt to which that exposes them is managed through mechanisms in their price controls. Where electricity distribution licensees require derogations in order to increase charges for the relevant year consistent with the schedule in a Valid Claim (as amended in accordance with Condition 38B of the Electricity Distribution Licence), Ofgem would be minded to grant such derogations in accordance with Condition 38B.6 of the Electricity Distribution Licence, if sought.

Where a network licensee would, but for the existence of a Transaction and so an LRSP Permitted Assignee, have made payment of an LRSP instalment to the relevant SoLR on the due date, it would in such a case be regarded by Ofgem as having satisfied its obligation to make payment of that amount. Ofgem confirms that where a network licensee makes payment on the due date to an LRSP Permitted Assignee of the amount of an LRSP instalment, Ofgem will regard it as having satisfied its obligation to make that payment in the amount paid.

Ofgem regards it as important that network licensees have a clear understanding of certain aspects of Transactions, in particular to whom LRSPs should be paid and that if an LRSP Permitted Assignee has been notified to a network licensee, that licensee need only pay the LRSP Permitted Assignee without reference to the SoLR. Accordingly, Ofgem's consent to a Transaction (where appropriate for the particular Transaction) will contain a condition requiring notification to the network licensees

by the SoLR that it retains no interest or right in, in relation to or arising from any LRSPs in respect of Valid Claims assigned to the LRSP Permitted Assignee.

Where a licensee fails to make a LRSP payment due in accordance with an obligation arising under or deriving from its licence, whilst Ofgem would necessarily investigate the circumstances before reaching conclusions in any particular case, in principle, Ofgem would regard such non-payment as a contravention of the relevant licence condition. This would include non-payment to a LRSP Permitted Assignee. Such a contravention would have the potential to be a serious contravention that would cause corresponding loss to the LRSP Permitted Assignee.

As with any enforcement matter, Ofgem would expect to approach enforcement in accordance with its statutory duties and its Enforcement Guidelines.

Interested parties' attention is drawn in particular to the focus of both Ofgem's statutory duties in relation to enforcement, and the approach to the various powers it has in such circumstances set out in the Enforcement Guidelines, on securing compliance. Ofgem is mindful in giving this clarification of its duty to have regard to the need for licensees to be able to finance their licensed activities.

Payments only to other licensees

One respondent argued that S.7B(5)(b) of the Gas Act 1986 and S.7(3A) of the Electricity Act 1989 could be read as meaning that standard licence conditions can only require a licensee to make payments to another licensee, particularly where it is raising use of system charges to do so rather than funding the payment from its own reserves.

Ofgem response

There are many existing licence conditions which require, or effectively require, payments to non-licensee third parties, for example the various requirements to be parties to and make payments under industry codes or, in some cases, to customers, particularly where this facilitates other industry schemes and arrangements. Having considered the argument made, and given the established precedent, we are content that the sections should not be read as being subject to this constraint. Further, in this instance, any payment would be to an assignee of a licensee in a transaction approved by the Authority, rather than an entirely unconnected third-party. We note that S.7B(5)(b) is expressly without prejudice to the broad generality of the scope of licence conditions and circumstances in which they may be imposed or modified and consider the generality in both sections to be deliberate and important. We consider these proposed modifications to meet the core test of being 'requisite or expedient' in the current circumstances – it is a proportionate response designed to protect customers' interests without materially affecting the risk profile of affected licensees. We therefore consider the proposed modifications to be consistent with both of those sections.

Inconsistency of charges for customers of IGTs and GDNs

Though the INA supported the licence changes and had no concerns with the proposed modifications, it raised a separate concern that the current SoLR recovery process creates potential inconsistency of charging arrangements between customers of IGTs and GDNs.

Ofgem response

We are considering how to address this potential inconsistency in charging arrangements, and are planning to direct the IGTs to apply the same SoLR charge as GDNs do from April 2022. We intend to consult further on this issue over the coming weeks.

Distribution Use of System Agreement

We understand that there are different views as to whether the existing electricity arrangements, in particular the Distribution Connection and Use of System Agreement (DCUSA)⁷, create contractual rights which could be assigned. Ofgem is considering whether modifications to DCUSA are appropriate and we invite others to also consider this further.

Impact Assessment

We have considered our duty as set out in section 5A of the Utilities Act 2000 with regard to carrying out a statutory impact assessment. We do not consider this decision involves a major change to GEMA's activities, and we do not consider that it would necessarily have significant impacts on industry participants, the general public or on the environment. For these reasons, we have considered the impacts in a proportionate way, in line with our impact assessment guidance.

When we consider whether or not to appoint a SoLR who is considering using the assignment of a LRSP to a 3rd party to attract third party finance, and when we consider whether to approve an assignment of an approved claim, and if so, whether to place any conditions on that consent, we will do so considering everything in the round. Any decision to appoint a SoLR or approve an assignment would be in line with our published SoLR guidance, and take into account our statutory duties including our principal objective to protect the interests of consumers.

Effect & Impact of the Proposed Modifications

The modifications set out in the attached directions aim to achieve the following effects:

Electricity and Gas Supply Standard Licence Condition 9

- Licence recognition that a SoLR may assign its rights and that, where it does so, the network licensee shall pay the approved third-party.
- Clarity that the costs associated with third-party finance can be included in the SoLR Levy amount.
- A new mechanism to support a multi-year payment profile.
- Flexibility to disapply the 6-month time limit on submission of approved levy claims to the relevant network company, in order to support the splitting of any claim into separate years and the deferred submission of any year's part of that claim, only with the Authority's consent.

Gas Transporter Standard Special Condition A48, Independent Gas Transport Licence Standard Condition 48, and Electricity Distribution Standard Conditions 1 and 38B

- Licence recognition that a SoLR may assign its rights and that, where it does so, the network licensee shall pay the approved third-party.
- A new mechanism to support a multi-year payment profile.
- A reconciliation mechanism for any annual adjustments.

The modifications have been designed to keep existing systems and processes broadly intact but to acknowledge the potential for LRSPs to be made to a finance provider or an insolvency remote entity established by a finance provider instead of the SoLR. This is intended to operate without materially affecting network licensees' risk profile.

⁷<https://www.dcusa.co.uk/>

It may be possible to achieve similar effects without licence modifications. For example, by relying solely on conditions within consents to specify when, and how, their value was to be presented to the network licensees and collected/paid through use of system charges. Additionally, as a SoLR's ability to assign its rights does not come from the licence, it is not created by these modifications. However, making modifications which expressly recognise any assignee and arrangements for payment to it, including multi-year payments, should help reduce the risks and costs in any such arrangement. It was made clear to us in the responses to the consultation, and in the engagement with licensees and other parties we had during the consultation period that, whilst there is a degree of uncertainty about what the exact legal nature and extent of a SoLR's "right" to receive LSRP payments and when any such right arises, there is a sufficient interest capable of being disposed of in a transaction to make a transaction viable, without a requirement for that interest to be made contractual.

We therefore do not consider these modifications to have a significant or disproportionate impact on licensees or, in themselves, on consumers. These modifications may be net beneficial to competition, particularly if they do enable suppliers and SoLRs to access greater working capital. Ultimately, if these modifications do support a third-party financing arrangement which we consider to be in consumers' interests, then they could have a material net benefit for consumers as well as any suppliers or shippers who avoid having to pay substantially increased use of system charges in any one year.

Yours sincerely,

Simon Wilde

Director, Analysis and Assurance

Duly authorised by the Authority

Published alongside this document on our website:

1. Gas Supply - Direction
2. Gas Transporter - Direction
3. Electricity Supply - Direction
4. Electricity Distribution – Direction
5. Responses to Statutory Consultation

Annex A

Context: SoLR Levies and Third-Party Finance

When a SoLR takes on the customers of a failed supplier, it has to finance the additional costs of doing so (for example procuring the energy it supplies to those customers, honouring any credit balances the customers had with the failed supplier or particular costs of onboarding those customers).⁸ Such costs of supplying those customers are, ultimately, recoverable through either the charges those customers pay direct to the SoLR or the Levy payments the SoLR collects from certain network licensees.⁹ The SoLR must find a way of financing the costs until then and it can take many months, or even years, for SoLR Levy payments to come through.

To date, there are multiple suppliers who have been able to secure such finance, especially given the faster process which we put in place which shortens the recovery time. However, most of the SoLRs who have been appointed recently are part of larger, often global, corporate groups and have relied upon group financing. If there was a clearer, or more certain, route to third-party financing, a greater number of suppliers may be able to act as SoLR, or for those who have already acted as SoLR to take on more customers or to access a greater range of financing solutions.

Additionally, if third-party financing were available for those SoLR Levy costs which we expect to be asked to approve for recovery from 2023/24, it may be possible to spread the impact of those costs on consumer bills over multiple years. There could be value for consumers in meeting those costs over a longer time period.

Rationale for Our Proposals

We have been closely monitoring suppliers' financial stability for some time, expanding that monitoring to all suppliers in the autumn of 2021. That monitoring has made clear that suppliers' working capital needs are under greater pressure.

We have been scoping the viability of these proposals with a number of interested parties. There is interest in suppliers in being able to gain access to a wider range of financing solutions, and there is broad support for trying to find a way of mitigating the financial impact on customers of the SoLR cost recovery from April 2023.

The modifications are designed to work for any third-party finance provider, and we would encourage suppliers to engage with financiers to explore what finance can be provided.

We have developed initial proposals which are designed to support arrangements where a third-party financier 'buys' any and all rights the SoLR has to the future levy payments. The third-party financier (or special purpose vehicle (SPV) which it creates for the purpose) then receives the SoLR Levy payments from the network licensees, instead of the SoLR. The value of those payments may be adjusted to take account of a) any decrease in SoLR working capital costs caused by the shorter payback period for the SoLR and b) likely increase to reflect the additional financing costs. The timing of the payments could also be altered, spreading the impact on customer bills in any one year.

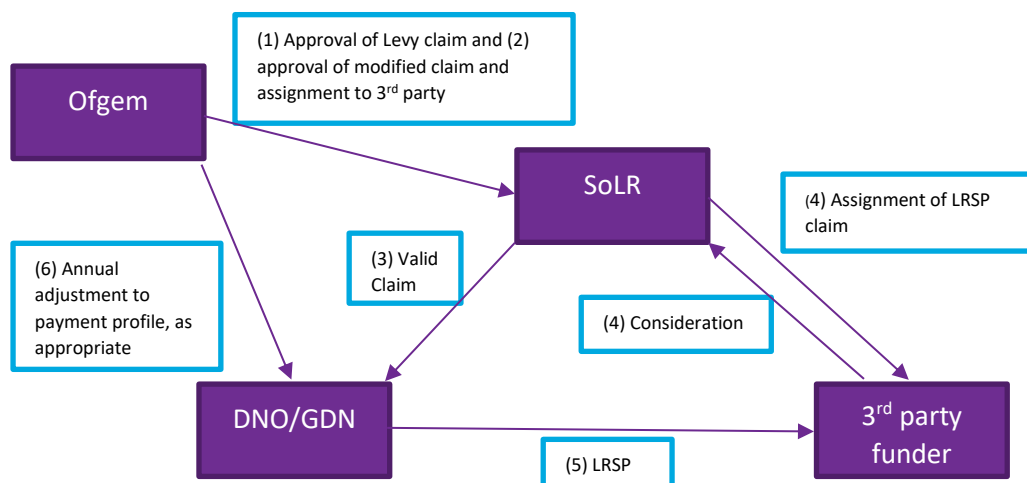
⁸ SoLRs are generally appointed for 6 months.

⁹ Network licensees raise their use of system charges to pay SoLR Levies. Those use of system charges are paid by other suppliers and/or shippers, who in turn pass the costs onto their customers. The SoLR Levy mechanism therefore socialises the cost of the SoLR process across all customers.

These proposals would not result in a loan being made to either the network licensees or the supplier; although we do not consider that they would prevent such additional or alternative arrangements in the future. We anticipate that these proposals could support arrangements which help avoid the risks of further supplier failure and the potentially complex implementation which may be required where existing debt arrangements are affected.

The rest of this section describes, in high level terms, how a third-party financing arrangement may work.

Figure 1: Third-party financing arrangement



To describe each of the numbered stages:

- (1) Ofgem approves SoLR Levy claims. In the future, Ofgem would expect the financing arrangements to be put in place before or at the time the SoLR is appointed (albeit likely supplemented with some form of bridging support) and included in the amount approved.

For those claims which have already been approved without 3rd party finance support, a SoLR may want to assign a claim in order to receive the cash from the 3rd party as a lump sum earlier than as set out in the original approved monthly payment profile.

- (2) The SoLR would submit a modified claim to Ofgem, effectively or actually seeking consent to assign the SoLR Levy claim to the 3rd party finance provider. The modified claim would be for its original claim plus any net financing costs (if known) or (if not known) a methodology for determining financing costs.¹⁰ The modified claim could specify a payment profile over which the SoLR Levy would be paid by network licensees and Ofgem could determine that, or an alternative, payment profile.

That SoLR request would include information which would help Ofgem to assess if the proposal was in consumers' interests, eg whether any net increase in cost to consumers was appropriate given the potential benefits of deferral. As part of that assessment, Ofgem would consider any commitments regarding gain share for consumers in future sales or refinancing

¹⁰ These costs would be net because there would be a reduction in the amount of working capital included in the initial SoLR Levy if the SoLR was being re-paid over a shorter period.

of the transaction. Any new or amended SoLR Levy consents given by Ofgem could be subject to conditions, eg a requirement that the SoLR procures that the 3rd party enters into an agreement/undertaking enforceable by the Authority relating to adjustments and gain-sharing. It may also include a condition relating to subsequent assignment (but note (4) below).

If it is not possible to set absolute amounts for each year of SoLR Levy payment in advance, eg because interest payments will fluctuate, there would therefore need to be a mechanism by which the parameters of those changes were agreed, and absolute amounts confirmed at specified points, likely annually by Ofgem.

As we set out in our Open Letter on 29 October 2021 and Decision Letter on 1 December 2021,¹¹ the faster SoLR levy process includes a true up mechanism covering the difference between the amount of incurred costs included in an initial claim and the actual outturn costs. Any reduction in the value of the initial claim would be set off against the subsequent claim, reducing the amount of that subsequent claim. In the unlikely event that there is still an amount due from the SoLR, it would be payable by the SoLR, not the 3rd party.

Steps (3) and (4) would happen in quick succession.

- (3) The SoLR would present its (modified) Valid Claim (with payment profile etc.) to network licensees for payment together with notification of the assignment/disposal to the 3rd party financier.
- (4) The 3rd party financier will purchase from the SoLR its SoLR Levy. This could be a true sale, resulting in the rights in respect of the SoLR Levy no longer being owned by the SoLR and therefore these assigned SoLR Levy likely not forming part of a SoLR's bankruptcy estate (although the SoLR/consumers will retain any true-up risk).

As set out above, the assignment to the 3rd party itself is likely to be subject to conditions. It should be noted in this context that (i) the 3rd party may create security over the SoLR Levy receivables that it has purchased, and (ii) if there is no restriction on one bank transferring its notes to another investor, it may be that protection for consumers is through the gain-share mechanism agreed with the 3rd party at the outset.

- (5) The network licensees would pay directly to the 3rd party into a segregated collection account. The 3rd party uses those SoLR Levy collections to pay (i) financing expenses, (ii) interest due on the finance transaction, (iii) principal repayments and (iv) any remaining amount to the network licensees as part of an adjustment mechanism determined under (6) (which in turn should be applied to reduce customer charges).
- (6) Our current expectation is that each year Ofgem would liaise with the 3rd party about expected interest charges for the following year, if interest rates were not to be fixed at the outset, with Ofgem notifying the network licensees of the amount by which their charges will need to be

¹¹ [Letter to suppliers on supplier of last resort levy claims | Ofgem](#) and [Decision letter on supplier of last resort levy claims | Ofgem](#)

adjusted to include this expected interest charge. In a year where there is a re-financing/capital markets access, it is possible that the adjustment could be larger but still capable of being accommodated in changes to charges directed by Ofgem under the annual update mechanism.