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Dear Sir,

**Response from Ceres Energy to Ofgem's Statutory Consultation on modification of Last Resort Payment
Claim for electricity supply, gas supply, electricity distribution and gas transportation licence conditions**

Ceres Energy Limited is a gas shipper in the GB and Irish markets, dealing mostly in green gas (biomethane). As a gas shipper, Ceres has seen the impact of company failures in the gas supply chain at close quarters; indeed we have been involved in reconnecting the chain when an intermediary has failed.

The Supplier of Last Resort Process has been severely stretched in the six months and there is a plethora of documents applying urgent changes or guidelines. This seems to be a piecemeal process focused on minimising disturbance to domestic customers caught up in the process, rather than addressing the whole problem. The SOLR process is having to address a problem it was never intended to solve – the inability of the SOLR to pass through the marginal cost of supply because of the tariff cap constraint. In responding to this consultation, we are also commenting on the overall context.

The Supplier of Last Resort procedure underpins confidence in competition in the energy markets, ensuring that of customers have continuity of gas supply when their supplier's business fails. The objectives which are being prioritised are

- Continuity of supply
- Key financial protections for the customer
- Manageable process for the incoming supplier.

We need also to be concerned about the extent to which the socialisation of the costs of Supplier of Last Resort are blurring the responsibility of the original suppliers and any of their associated companies. It should not be favourable to get out of the obligations of a licensed supplier and then realise the value of hedges bought for those customers. The overall process therefore needs to also focus on

- Lowest economic cost to all customers in the system who underwrite the transfer and unrecoverable costs.
- Maximising the recoverable costs and recovering them.

The Supplier of Last Resort costs are no longer small amounts when spread thinly across all customers – £0.9bn on the gas side over 21 million people is a significant amount individually especially since most of the cost is going to the domestic consumer and on top of the gas cost rise.

This option for third party financing proposed in the consultation is supported as it does bring some advantages to the overall process, allowing the SOLR costs to be smoothed over a longer period. It cannot however be presumed that later cost recovery will coincide with lower underlying gas prices so the impact on customer is still serious. The proposed financing product is relatively simple and therefore the cost of it

should be made as transparent as possible. In particular, clear guidance on the appropriate interest rates (this is a very low risk loan) and a benchmark for administration should be given. Without such transparency it is unclear how Ofgem will manage to assess proposals on a case-by-case basis.

It would be hoped that more flexibility in financing an SOLR transfer can create more enthusiasm for taking on the SOLR role amongst a broader range of suppliers, but the ongoing uncertainty of how the tariff cap might bite is probably of more concern for a company taking on a significant number of customers.

Ceres is concerned that the smoother the process of socialising the costs of supplier failure, the less pressure there is to recover costs from the failed supplier. There is a clear separation of responsibilities between the failed supplier and the SOLR; administration of the failed supplier – and not all failed suppliers are actually going through insolvency – focuses on clearing the creditors. In a situation when the market is rising rapidly, getting out of licence obligations and selling hedges bought for those obligations should not be the primary option. Ofgem needs to be looking out for structural arrangements which are protecting assets around the failed business and passing costs down the SOLR process. The SOLR itself has limited scope to recover costs from the failed supplier through the insolvency process.

The Supplier of Last Resort process was never intended to account for a loss-making tariff cap, distributing the losses across all customers in such an unmanaged way.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G Hunter', with a stylized flourish at the end.

Graeme Hunter

Operations Director