

Appendix 1: Centrica response to consultation questions

Question 1: Do stakeholders agree with our minded-to position 1 (option 2)?

We strongly support Option 2 as it is the only viable option for Ofgem to implement for SoLRs appointed between September – December 2021. Suppliers had bids accepted by Ofgem that stated that suppliers would claim commodity costs until end of March 2022. If these agreements were reneged on, then it would lead to two damaging outcomes for consumers:

- Suppliers acting as SoLRs would face a significant financial impact that they hadn't accounted for, and as demonstrated by the large number of recent supplier failures this would be at a time when market conditions are placing immense strain upon energy suppliers. Not allowing suppliers to recover their costs may also negatively impact investor confidence in the energy supply market and reduce incentives for suppliers to become a SoLR.
- Suppliers would lose trust in the SoLR process if Ofgem is able to renege on bids that are agreed to at the time of SoLR appointment. Ofgem not honouring agreed bidding terms would likely lead to suppliers no longer having the confidence to put in competitive bids to be appointed as a SoLR, resulting in less attractive bids, greater levy claims and greater costs that will ultimately be picked up by consumers.

We understand that Ofgem's preference is to not honour costs beyond the six months that a SoLR direction is applicable for. This stance should place the onus on Ofgem to ensure that as part of the SoLR bidding process that it does not agree to any costs that it is not willing to honour when it comes to make a levy claim. Instead of agreeing to costs as part of a bid and then reneging on honouring them as part of a post-SoLR levy claim.

Not all SoLRs were appointed between September – December 2021. Most notably for Centrica we were appointed as the SoLR for Together Energy's customers in January 2022. Our bid agreed a bespoke arrangement with Ofgem for recovering wholesale commodity costs and it is important for the integrity of the SoLR process that these arrangements are honoured as part of our future levy claim.

As Ofgem has highlighted in its analysis of Option 2 vs Option 1, not allowing suppliers to recover costs until end of March 2022 is estimated to result in suppliers under-recovering between £48-51m - based on Ofgem's low and high estimates respectively. This £48-51m is an amount that suppliers are rightly entitled to for acting as SoLR and was factored into their competitive bids to act as SoLR. An inability to recover this £48-51m would have a serious deleterious impact on SoLRs as set out in the bullets above.

Question 2: Do stakeholders agree with our minded-to position 2?

We agree with Ofgem that there should be a standardised approach for suppliers to provide evidence for a SoLR levy claim. Ofgem is uniquely positioned in having seen all SoLR levy claims to date and therefore should publish as detailed guidance as possible on what evidence it is expecting suppliers to provide both for true up levy claims and future SoLR levy claims.

We support Ofgem's proposal that when making a claim for financing costs, suppliers should provide confirmation from a company Director that the company has fully

considered the commercial options available to it and has chosen the option that represents the best value for money for consumers, and that the rate is reasonable in all circumstances of the case.

To ensure consistency across all suppliers Ofgem should provide a template letter to all SoLRs that company directors can sign and submit as part of a future levy claim or true-up claim. Ofgem should also clarify what methodology suppliers should follow when calculating how working capital is applied to their levy claim.

When bidding to be appointed as SoLR we have provided a percentage working capital above Bank of England rate that will be applied to our future levy claims, which was agreed upon with Ofgem when it accepted our bid. The working capital element of our bid was based on the late payment charges that apply under the Renewables Obligation and therefore there is precedence for the proposal in our bids.

It is important to honour this percentage in future levy claims, for suppliers to retain confidence in the SoLR process. If Ofgem does not think the working capital element of a bid is cost reflective then such concerns must be raised as part of the bidding process, not afterwards once suppliers have factored working capital into putting forward a competitive bid.

Question 3: Do stakeholders agree with our minded-to position 3?

We support any reasonable and evidenced claim against a SoLR levy provided the supplier can demonstrate it to be cost effective. Therefore, we have no objections for SoLRs to claim for PPM credit balances if they have incurred such costs, and for all SoLRs to claim such costs should they be applicable – i.e., if the SoLR has gained PPM customers through the SoLR process.

We do not have a fixed view on cost categories, though we are asking Ofgem to investigate this matter to determine the degree of costs the SoLR has incurred. We would support Ofgem's findings in this matter provided it is applied consistently across all SoLR levy claims.

Question 4: Do stakeholders agree with our minded-to position 4?

Customers with smart PPMs are likely to differ in their behaviour when compared to traditional prepayment customers, as it is often more convenient to top up a smart PPM than a traditional one. However, we do not have any evidence on what, if any, credit balance differential there is likely to be between smart and traditional PPM customers.

Given this uncertainty we are comfortable for SoLRs to use smart PPM credit balances as a proxy. Given suppliers may have different average smart PPM credit balances in their portfolios this may introduce some differences in SoLR claims and Ofgem should seek to ensure the assumed level of PPM credit balance is applied consistently across all claims.

Question 5: Do stakeholders agree with our minded-to position 5?

We agree that SoLR claims should be audited, and our previous SoLR levy claim submissions have been robustly assessed by our internal audit team for all wholesale costs we have incurred, to ensure they were cost effective.

We appreciate the further guidance provided by Ofgem in the consultation, but it is important to note that a robust audit of credit balances is reliant to a large degree upon the administrator, and as we have flagged to Ofgem before administrators have not always been co-operative in SoLRs.

Centrica is committed to a robust audit of our levy claims to the extent the ability to audit is within our gift.

We would also request further guidance from Ofgem on migration costs as these are not explicitly mentioned within Ofgem's consultation.

Question 6: Do stakeholders agree with our minded-to position 6?

We understand Ofgem's drive to bring the multiple-claim, levy process to an end as early as possible after winter 2022/23. However, this temporary process was brought in due to the instability in commodity markets and it's unclear when this uncertainty will subside and how many more suppliers may fail before commodity prices return to previous levels.

Therefore, we suggest Ofgem's removal of the temporary, multiple-claim, levy process should be driven by market price reduction rather than time.

Alternatively, Ofgem could make it clear in each direction whether a multiple-claim levy process applies for each SoLR process based on a supplier's bid. This will keep the multiple-claim process open should it be needed again after Winter 2022/23.