



Last resort levy claims true-up process consultation

Wholesale Cost Claims

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

In principle, we agree with Ofgem's minded-to position.

We understand that regular changes to the price cap make determining the level of wholesale costs to be claimed extremely complex. We recognise that amendments to price cap allowances have led to wholesale costs being more adequately reflected from 1 April (price cap period 8) which means that claims for the second six months are less likely. But we also understand there are further price cap related reasons which could impact the level of a wholesale claim. As an example, there are wholesale costs relating to the second six-month period, as the price cap observation period for summer 22 began before the SoLRs were appointed, equally there may be complex interactions with other price cap adjustments.

Nevertheless, suppliers should be able to take on SoLR customers with the reassurance that they can claim for the additional and unrecoverable costs they have incurred where necessary. Based on all the facts available at the point of submitting this consultation response, we agree with Ofgem's minded-to position. ✂

Financing Costs

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

We agree. We understand the reasons why Ofgem would want to ensure that SoLR financing costs deliver value for money and the proposed approach is sensible.

Traditional PPM Credit Balances

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

We agree.

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

We do not agree with Ofgem's minded-to position.

Due to the differences in a supplier's customer base, the average level of credit balances could vary significantly from one supplier to another. One factor that may impact this level is the proportion of smart PAYG meters which have been installed to recover debt. A supplier with a higher proportion of these customers may have lower average credit balances than a supplier with a lower proportion. Additionally, some customers may add small amounts of credit to their meter frequently whilst other customers may prefer to top-up less frequently but with larger amounts. These preferences



could vary amongst suppliers and, depending on the time of the month that a SoLR event takes place, there could be a large variance in average credit balances. As a result, in the event of supplier failure, the selected SoLR may submit a claim for credit balances which is much higher than a claim may have been had an alternative supplier been successful in their bid.

A fairer way of calculating credit balances could be to determine the average across all suppliers by issuing an RFI to those suppliers with smart PAYG customers. Another option could be to ask SoLRs what their average credit balance is for smart PAYG customers as a question within the SoLR RFI. Whatever approach is used it is important that a consistent methodology is shared with all suppliers to use in such an event.

Ofgem's thoughts in this area are relatively new and high level and we recommend Ofgem liaises with suppliers further on this topic to fully understand the potential solutions before making a decision. Whatever decision is made, the SoLR is responsible for all costs for the customers of the failed supplier as soon as it is appointed.

Audit Requirements

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

Overall, we agree with Ofgem's minded-to position, and our internal audit team will complete the audit as described in the consultation in line with industry standards.



We note Ofgem's preference for suppliers to submit the final reports alongside their final claims. To ensure suppliers have sufficient time to carry out a robust audit process in the timescales available, Ofgem should allow suppliers to submit the final report after submission of the final claim. We understand the need to allow time for Ofgem to consult on the final claims however, we do not believe this is dependent on the submission of the final audit report. At the point of submission there should be no material change to the audit findings.

Temporary Mitigation Measures

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

We do not agree. There have been calls for Ofgem to review the end-to-end SoLR process. Until this review has been completed, we believe there is a case to retain the multiple claim process alongside the standard levy claim process. It is impossible to predict the scenarios that may lead to a significant increase in wholesale costs in future. The past two months alone have demonstrated that wholesale costs can vary by a large amount. Although the price cap will be calculated more frequently from October, the variances witnessed recently could still lead to a supplier experiencing financial difficulties and failing as a result.

It is impossible to foresee the circumstances where a multiple claims process may be more suitable in future. In the absence of any analysis to identify the circumstances, we believe it would be



prudent to retain the option to use it. Indeed, we do not believe that any criteria could help determine when the multiple claim process could be removed.

The choice of using either process may encourage more suppliers to volunteer to act as SoLR in the event of further supplier failure. In fact, it could be incorporated into the SoLR RFI process by way of an additional question asking potential SoLRs what their preference would be and the reasons why. Ofgem could then use that information to weigh up different bids from different suppliers, expressing a preference for a single claim process if appropriate.

There are some further advantages of the multiple claim process which shouldn't be overlooked for example the cost of capital is reduced if a claim is submitted early. Also, although Ofgem highlights two main reasons for ending the multiple claims process we believe these reasons support the case to retain the process. On Ofgem's point about reducing the risk of overpayment, there should be no risk of this occurring if the process is managed properly. Our experience of Ofgem's approach so far has demonstrated that rigorous steps have been implemented to prevent such an occurrence. In relation to lessening the short-term impact of levy claims on energy bills, it is worth remembering that this is the result of market conditions during the second half of 2021. Without the option to submit early claims, suppliers would have experienced a shortfall in their short-term working capital reducing the likelihood of suppliers volunteering as SoLRs. Furthermore, recent wholesale market activity shows that it is impossible to predict when wholesale costs will reduce. If suppliers submitted claims using the one claim process once all costs were incurred, the additional cost to energy bills in a 12-month period would be higher than it is now with no guarantee that wholesale costs are any lower. This would lead to even higher bills for consumers. We recommend that Ofgem considers the advantages of making both options available in the event of certain situations arising.