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20 December 2022

Dear Colleague

### **Last Resort Supply Payment Claim from E.ON Next**

On 7 October 2022, E.ON Next submitted a claim for a Last Resort Supply Payment (LRSP) for Ofgem's consent under Supply Licence Standard Licence Condition (SLC) 9. E.ON Next is seeking to recover additional costs incurred in complying with a Last Resort Supply Direction<sup>1</sup> to act as Supplier of Last Resort (SoLR) to customers of the former Igloo.

On 4 November 2022 Ofgem published a minded to position in relation to that claim for consultation.<sup>2</sup> Responses to this consultation and consultations on other SoLR claims can be found within this document.

In addition, we conducted internal assurance of our minded to position.

### **Decision to consent**

After taking into consideration the consultation responses and the results of our internal assurance, on 20 December Ofgem consented to E.ON Next making a LRSP claim of up to £3,459,367.81

This letter is the notice of reasons for Ofgem's decision to consent to E.ON Next making a LRSP claim from relevant network operators. Our decision will allow E.ON Next to claim for costs relating to:

- Additional wholesale costs incurred as a result of commitments to supply energy to SoLR customers;
- protecting the credit balances owed to former customers of Igloo;
- financing costs incurred on becoming a SoLR;
- other costs reasonably incurred on becoming a SoLR.

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<sup>1</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-03/Decision%20letter%20-%20Igloo%20Energy.pdf>

<sup>2</sup> [SOLR Levy - Minded to position for consultation - Igloo - E.ON Next.pdf \(ofgem.gov.uk\)](#)

We have assessed this LRSP claim in accordance with our policy decision on the true-up process, published 21 September 2022<sup>3</sup>*Guidance on supplier of last resort and energy supply company administration orders*<sup>456</sup>particular circumstances of the case.

Nothing in this decision should be taken as setting a precedent for any future claims, which would also be considered on their merits and on a case-by-case basis, taking into account all relevant circumstances.

An overview of E.ON Next's LRSP claim together with the reasons for decision with respect to this claim are set out below.

## **Background**

### *The SoLR process*

Electricity and gas supply is a competitive activity in Great Britain. While competition has the potential to bring many benefits to consumers, in a competitive market, companies that are not operating efficiently may fail. This applies as much in relation to the gas and electricity supply markets as it does to other markets. The failure of a supplier may affect a range of groups including its consumers, the wider market and other consumers. Ofgem has discretionary powers that enable it to address these consequences.

It is Ofgem's statutory duty to protect customers' interests when suppliers fail including their interests in the security of energy supply to them<sup>7</sup>. Under Supplier SLC 8 Ofgem can issue a Last Resort Supply Direction to direct any gas or electricity supplier to take over responsibility for a failed supplier's customers.

Generally suppliers are open to taking on the role of SoLR because they acquire a large number of new customers who may remain with them over the longer-term and allow the supplier to increase its margins. As a result, suppliers may compete to be appointed.

In considering which supplier to appoint as SoLR, Ofgem must be satisfied that the SoLR can supply additional customers while continuing to supply its existing customers and to fulfil its contractual obligations for the supply of gas or electricity<sup>8</sup>.

Ofgem's criteria for the selection of a SoLR are set out in its "Guidance on supplier of last resort and energy supply company administration orders"<sup>9</sup> and our stated policy preference is to appoint a SoLR that has volunteered for the role. To understand the terms on which suppliers are willing to volunteer as SoLR, Ofgem requires potential SoLRs to provide information about a number of issues, including customer service, how the supplier would meet SoLR obligations, whether it would make any LRSP claim and, if so, for what categories of costs and with what upper limit. This is done by way of a Request for Information (RFI).

Once a Last Resort Supply Direction has been issued, the responses to the RFI become supplier commitments, which under Supplier SLC 8.3 the SoLR must take all reasonable

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<sup>3</sup> <https://www.ofgem.gov.uk/publications/decision-last-resort-levy-claims-true-process>

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/10/solr\\_revised\\_guidance\\_final\\_21-10-2016.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/10/solr_revised_guidance_final_21-10-2016.pdf)

<sup>5</sup> s4AA Gas Act 1986 and s3A Electricity Act 1989

<sup>6</sup> Equality Act 2010 Part 11 Sections 149 to 157 [Equality Act 2010 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2010/154/part_11)

<sup>7</sup> See section 4AA (1A) (b) Gas Act 1986 and section 3A (1A) (b) of the Electricity Act 1989

<sup>8</sup> See Supplier SLC 8(1)(b)

<sup>9</sup> [Supplier of Last Resort: Revised Guidance 2016 | Ofgem](#)

steps to honour. Under Supplier SLC 8 a supplier must comply with a Last Resort Supply Direction, whether or not it volunteered for the SoLR role.

As part of its regulatory responsibilities Ofgem has discretion under Supplier SLC 9<sup>10</sup> to determine the amount of compensation that a SoLR can recover for additional costs incurred as a result of complying with a Last Resort Supply Direction<sup>11</sup>. Ofgem's subsequent exercise of that discretion can not be limited by any response that a supplier makes to an RFI before a Last Resort Supply Direction is issued. SLC 9 makes clear that in deciding whether or not to approve a SoLR levy claim, Ofgem must consider what it considers to be '*appropriate in all the circumstances of the case*'. In making that decision, Ofgem's principal objective is to protect the interests of existing and future consumers and we are very mindful that all amounts consented under SoLR levy claims are paid for by customers.

It is well understood by suppliers that Ofgem must make complex regulatory choices about the allocation of risks and when a supplier has failed. It must do so having regard to the future operation of the market. In particular, Ofgem must balance the need to ensure that its approach to claims for a LRSP ensures that suppliers are not disincentivised from volunteering to become SoLRs while not creating a moral hazard by encouraging suppliers to make commitments on the basis that any losses subsequently incurred could be recovered by way of a LRSP. This is a complex balancing assessment carried out by Ofgem as regulator, having regard to its principal objective to protect consumers.

### Failed Supplier event

On 01 October 2021, we appointed E.ON Next as the SoLR<sup>12</sup> for Igloo gas<sup>13</sup> and electricity<sup>14</sup> customers, following its announcement that it had ceased trading. This followed an appointment process aimed at getting the best deal for consumers. We outlined the material factors behind our decision to appoint E.ON Next as the SoLR to those customers in our decision letter published on 18 March 2022<sup>15</sup>.

### Last Resort Supply Payment

Under SLC 9.1, SoLRs are entitled, with Ofgem's consent, to make a claim for a Last Resort Supply Payment ("LRSP") from each Relevant Gas Transporter and Electricity Distribution Operator ("network operators").

SLC 9.4 provides that the total amount of the LRSP must not exceed the amount by which the total costs (including interest on working capital) reasonably incurred by the SoLR in supplying customers under the Last Resort Supply Direction and a reasonable profit plus any sums paid or debts assumed by the SoLR to compensate customers in

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<sup>10</sup> See in particular Supplier SLC 9.5 and 9.6

<sup>11</sup> A consent given by Ofgem under SLC 9 may be varied, amended or remade and may be made subject to conditions – see Supplier SLC 2.7.

<sup>12</sup> [Appointment of E.ON Next Energy Limited as Supplier of Last Resort for Igloo Energy Supply Limited \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/direction-appoint-eon-next-energy-limited-gas-supplier-last-resort-customers-igloo-energy-supply-limited)

<sup>13</sup> <https://www.ofgem.gov.uk/publications/direction-appoint-eon-next-energy-limited-gas-supplier-last-resort-customers-igloo-energy-supply-limited>

<sup>14</sup> <https://www.ofgem.gov.uk/publications/direction-appoint-eon-next-energy-limited-electricity-supplier-last-resort-customers-igloo-energy-supply-limited>

<sup>15</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-03/Decision%20letter%20-%20Igloo%20Energy.pdf>

respect of any customer credit balances plus any additional (actual or anticipated) interest and finance costs associated with a financing arrangement approved under SLC 9.7C are greater than the total amounts recovered by the SoLR through charges for that supply.

SLC 9.6 makes clear that Ofgem may determine that an amount other than the one calculated by the SoLR is a more accurate calculation of the relevant amount and, in such cases, the amount specified by Ofgem must be treated as the relevant amount when the licensee submits its claim to each relevant electricity or gas network licensee in accordance with SLC 9.8.

LRSPs are paid for by the relevant network operators, who then recover the cost through charges to suppliers. SLC 38B of the Electricity Distribution Licence and Standard Special Condition A48 of the Gas Transportation Licence set out the details of this.

### Multi-stage claims

During winter 2021/22 we introduced a number of changes to the process for making LRSP claims, which were designed to ensure that the SoLR process continues to protect consumers in the current market conditions. The changes included the temporary introduction of a faster, multiple-claims process whereby SoLRs are able to submit more than one claim in relation to each Last Resort Supply Direction.

This involves SoLRs submitting an 'initial claim' for costs faced in serving SoLR customers (typically wholesale commodity costs) in the period immediately after appointment. SoLRs may then follow this claim with a subsequent claim (or claims) for any additional and otherwise unrecoverable costs reasonably incurred under their SoLR Direction. We refer to these additional claims as 'true-up' claims for additional costs reasonably incurred during the relevant period. SoLRs entered into a 'True-up Agreement' with Ofgem to support the faster process. Initial claim consents, subsequent claims and true-up claims are conditional on SoLRs complying with the True-up Agreement. The true-up process is intended to reconcile suppliers' initial claims with actual costs incurred and determine any additional payments or repayments that should be made.

In line with our faster, multiple claims process, by December 2021 we had consented to SoLRs making initial levy claims totalling £1.83 billion. At the time, we set out that we would give further due consideration to a number of issues and consult with stakeholders before assessing any subsequent claims by SoLRs who submitted initial claims.

On 23 June 2022, we issued a consultation seeking views on our 'minded-to' positions on the fair approach to reflecting the costs suppliers faced in providing energy to customers after being appointed as a SoLR between September 2021 and December 2021. A decision document was published on the 21 September 2022<sup>16</sup> that set out our policy decisions on the approaches SoLRs should take with regards to these true-up claims. We applied these policies in order to reach our minded-to position on this claim, which we published for consultation on 4 November 2022.

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<sup>16</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-09/Decision%20on%20the%20last%20resort%20levy%20claims%20true-up%20process.pdf>

### Decision-making process

Under SLC 9.5, Ofgem must decide whether it is appropriate in all the circumstances of the case for the SoLR to make the claim notified to it in accordance with Standard Licence Condition 9.3. In making this decision Ofgem has considered evidence provided by E.ON Next, its own knowledge of the energy markets, and responses to consultation on the minded-to position on this claim.

In exercising this decision-making function Ofgem has had regard to the interests of current and future consumers of gas and electricity, and has considered the public sector equality duty.

Ofgem published a minded-to position on this claim and invited consultation responses. E.ON Next was offered the opportunity to meet with us to clarify aspects of the minded-to position during the consultation period. In reaching its decision Ofgem has taken into consideration any additional evidence provided by E.ON Next during the consultation period and any consultation responses received in relation to the published minded-to position.

In reaching its decision Ofgem carried out:

- a. A quantitative check of E.ON Next's methodology for each cost item claimed. This included determining how each total cost item was calculated based on data sent to us by E.ON Next and ensuring these costs were in line with commitments E.ON Next made at the time of its SoLR appointment;
  - b. A true-up and cross check of any evidence that may result in a change to the initial claim made by the SOLR;
  - c. Undertaking validation of some assumptions with other data sources, where appropriate;
  - d. Review and assurance of the calculations made in the published minded-to position; and
  - e. A qualitative and quantitative assessment of the claim for costs related to wholesale costs, credit balances, financing and other costs in accordance with our criteria and methodology, set out below.
- **Additional:** whether the costs claimed are additional to the costs to the SoLR of existing customers. In addition, we consider whether these costs would have been expected at the time of the SoLR's bid and whether any commitments were given in relation to these costs in their competitive SoLR bid.
  - **Directly incurred as part of the SoLR role:** whether the costs were incurred as a result of taking on customers in an emergency situation as opposed to normal customer acquisition routes.
  - **Otherwise unrecoverable:** whether the SoLR could have recovered the costs through other means. It would not be appropriate for us to allow the SoLR to claim for costs it could have recovered – or reasonably be expected to recover – through the administration process or customer charges, for example.

- **Economic:** whether the SoLR had made all reasonable efforts to avoid the cost in the first instance or absorb the cost.

#### *Overview of E.ON Next's claim*

E.ON Next indicated at the time of our SoLR appointment process that it would not waive its right to make a claim for a LRSP for any costs but that it would claim for the cost of credit balances, financing costs and certain other costs.

The initial claims were consented to on 29 October<sup>17</sup><sup>18</sup>. E.ON Next also submitted an interim claim, which was consented to on 17 December 2021<sup>19</sup><sup>20</sup>. Consistent with the terms of that consent and the True-up Agreement between the SoLR and Ofgem, we have taken that claim into consideration in reaching our decision on this claim.

#### **Summary of decision**

Ofgem has consented to E.ON Next claiming a LRSP of up to £3,459,367.81 conditional on E.ON Next confirming that this claim is a Subsequent Levy Claim for the purposes of the True-up Agreement and that the terms of the True-up Agreement continue to apply to this and subsequent claims in respect of the Last Resort Supply Direction.

The reasons for the decision are set out below. This decision should not be taken as setting a precedent for any future claims, which would also be considered on their merits and on a case-by-case basis, taking into account all relevant circumstances.

The cost category deductions and sub-totals within the table below have been redacted for confidentiality purposes.

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<sup>17</sup> [E.ON Next - 29 Oct - Electricity Consent - Symbio, Igloo, Enstroga \(ofgem.gov.uk\)](#)

<sup>18</sup> [SoLR Levy Claim Consent - Gas - Enstroga Limited, Symbio Energy Limited, Igloo Energy Supply Limited - E.ON Next Energy Limited \(ofgem.gov.uk\)](#)

<sup>19</sup> [SoLR Levy Claim Consent - Electricity - Enstroga Limited, Symbio Energy Limited, Igloo Energy Supply Limited - E.ON Next Energy Limited \(ofgem.gov.uk\)](#)

<sup>20</sup> [SoLR Levy Claim Consent - Gas Consent - Enstroga Limited, Symbio Energy Limited, Igloo Energy Supply Limited - E.ON Next Energy Limited \(ofgem.gov.uk\)](#)

Table 1: Summary table

Item	Cost	Initial Claim Approved	Interim Claim Approved	True-Up claim (this claim)	Minded-to deductions on this claim	Decision on deductions for this claim	Amount approved for this claim
1	Wholesale	£129,423,095.00	£15,870,145.07	£18,350,290.79	£14,822,426.95		
2	Credit balances	£0	£32,021,725.00	£1,655,361.00	£24,796.88		
3	Working capital	£0	£0.00	£9,753,983.16	£0.00		
4	Other costs	£0	£0	£3,213,101.11	£112,296.00		
Final total:							£3,459,367.81

## Reasons for decision

### General points raised in consultation

#### Summary

We received eight responses to our minded-to positions, with seven responses from SoLRs and one from a consumer group. We received wide-ranging support and recognition for working efficiently throughout the assessment period to ensure each LRSP claim was given due consideration whilst maintaining engagement stakeholders. We note several general points made by suppliers on the wider SoLR levy process, including the potential for further claims, and concerns regarding the policy decision to limit the additional, otherwise unrecoverable, wholesale costs that SoLRs can claim to the cost of energy delivered by the end of March 2022, or within six months of being appointed, whichever is later, the latter of which we have responded to in the wholesale section of this document. s. We have expanded below upon each general issue raised in consultation responses to the minded to position.

#### Rounding

In its response to the consultation, E.ON noted that the costs quoted in some of the tables have been calculated to the nearest pound rather than pence. For the wholesale element of E.ON's claim, this specifically affected the initial claim amounts shown in Table 1 and Table 2 of our minded-to position. We have corrected this in our decision on the final claim – the values stated in this letter (and the amounts set out in Table 1 above) have been based on to the unrounded numbers.

#### Changes in approach during consultation

Several suppliers claimed in their consultation responses that we had changed our approach during the process, including one supplier who believed that Ofgem had disallowed sums previously agreed in principle. Ofgem made it clear throughout the entirety of the claims process that we would assess each claim on a case-by-case basis,



considering the evidence and circumstances of each case before making a decision. Ofgem could not have made a decision on claims before considering all the information provided by SoLRs and any responses to our consultation on our minded-to positions. This was clear from our minded-to positions, which explained that the purpose of the consultation letter was to provide interested parties with an opportunity to make any representations to us, ahead of us making our final decision and that we would take such representations into account when reaching our final decision, making changes to our minded to position if considered appropriate. We also made it clear that our decision might reflect changes resulting from an additional assurance process.

This applies to all LRSP claims made by SoLRs. Ofgem has exercised its statutory discretion to ensure all decisions are fair and reasonable, taking into account the statutory framework, the relevant licence conditions, all the relevant circumstances and no irrelevant factors. The reasons for our decisions with respect to this claim are set out in subsequent sections of this letter. This should not be taken as setting a precedent for any future claims, which would also be considered on their merits and on a case-by-case basis, taking into account all the relevant circumstances of the particular case.

#### *Volunteering to be SoLR in the future*

Several suppliers noted that, due to our positions on certain elements of their claims, they may be less willing to volunteer as SoLR in the future. We note suppliers' concerns. However, Ofgem must make complex regulatory choices about the allocation of risks and costs in the event that a supplier has failed and must do so having regard to the future operation of the market<sup>21</sup>.

'In particular, Ofgem must balance the need to ensure that its approach to claims for a LRSP ensures that suppliers are not disincentivised from responding to the SoLR RFI to become SoLRs, whilst not creating a moral hazard, namely, circumstances where suppliers do not respond appropriately or take excessive risks when responding, knowing that any losses subsequently incurred could be recovered by way of a LRSP. This is a complex balancing assessment carried out by Ofgem as regulator, having regard to its principal objective to protect consumers<sup>22</sup>.'

We are confident that the process we have undertaken for assessment of these claims has been appropriate, in particular to protect consumers during the current cost of living crisis. In exercising its statutory discretion Ofgem has ensured all decisions are fair and reasonable, taking into account the statutory framework, the relevant licence conditions, and to be reasonable in all the circumstances.

#### *Lack of sufficient evidence*

One supplier noted that they were surprised by Ofgem's statements regarding a lack of sufficient evidence being provided to support claims. Where we have identified insufficient evidence, teams have worked to engage with SoLRs throughout the process to raise issues and request further information where appropriate to ensure that sufficient evidence is provided for us to consider. We are grateful for all SoLRs continuing engagement in this regard. As noted in the policy decision we published in September

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<sup>21</sup> see *R (on the application of Scottish Power Energy Management Ltd v Gas and Electricity Markets Authority)* [2005] EWHC 2324 (Admin) paragraph 97.

<sup>22</sup> see *R (on the application of Scottish Power Energy Management Ltd v Gas and Electricity Markets Authority)* [2005] EWHC 2324 (Admin) paragraph 97.



2022, the consultation provided interested parties with an opportunity to make representations to us, ahead of us making our final decision. During the consultation period we engaged with SoLRs that had not submitted enough evidence initially, giving them an opportunity to provide more and better evidence for Ofgem to consider. Ofgem has carefully scrutinised the evidence provided by SoLRs in relation to each claim and where it considers the evidence provided to be insufficient, has only allowed claims if additional evidence has been provided which justifies that the costs claimed (or an element of those costs) should be approved. We believe that this was a reasonable approach to balancing the need for rigorous and robust evidence, whilst recognising the need for suppliers to be compensated for costs meeting our criteria as described above as a result of acting as a SoLR.

### External Assurance

The consumer group restated the view, previously put in their response to our September policy consultation, that external assurance of all LRSP claim is required. Due to the scale of the LRSP claims, they do not believe that an internal audit is sufficient. We have decided to apply the policy decision published in September and not to require external auditing of these LRSP claims. This is because we consider that adding a requirement for external audit at this stage would be unreasonable. We will, however, consider this point ahead of any future LRSP claims.

### Further claims

Several suppliers voiced their view that further LRSP claims should be permitted, generally to allow further reconciliation of wholesale costs incurred. The possibility of further claims was echoed by the consumer group, which considered that further claims may be required to ensure that SoLRs are not overcompensated. However, the consumer group also pointed to the clear commercial incentive SoLRs have to use any further claims to argue that they have been undercompensated.

As part of that faster multiple-claim levy process, each of the SoLRs entered into a true-up deed with us. Under the True-up Agreement between E.ON Next and Ofgem, Subsequent Levy Claims may be made following the Initial Levy Claim and before a final True-up claim. As set out in the consultation for this claim, we were minded to consider this claim to be a Subsequent Levy Claim for the purposes of the True-up Agreement.

Following the consultation on this claim, we consider that this remains a reasonable approach. Accordingly, Ofgem has made its consent to this LRSP claim conditional on confirmation by E.ON Next that this claim is a Subsequent Levy Claim for the purposes of the True-up Agreement and that the terms of the True-up Agreement continue to apply. This includes an obligation to submit true-up information as requested and to refund any amounts by which E.ON Next has been overcompensated by a LRSP.

This would mean that the final True-up claim under the True-up Agreement will be made next year or later. This will allow additional time for suppliers to provide additional supporting evidence for the limited instances where we have specified that our decision on certain costs is not final. In addition, this will allow additional time to make the final True-Up decision to ensure that the benefit of any monies recovered from the administrators of the failed suppliers can be utilised for consumers' benefit.

For the avoidance of doubt, unless we have specified otherwise in respect of certain costs suppliers are seeking to claim, our decision on each Subsequent Levy Claim is a final decision, and we do not expect suppliers to seek to revisit those final decisions.

We have made clear in this decision where we consider that we have not yet made a final decision on a particular element of this subsequent claim; and/or where we expect to make a revision to the amounts approved here under the True Up Deed (or amended or otherwise varied consent), especially should additional evidence be forthcoming or once additional validations have taken place.

### Status of SoLR RFI responses

We note that when suppliers respond to an RFI to become a SoLR, they may include certain requests in their response to the RFI and ask us to consider them, for example the recovery of costs over a longer period. However, while we use the information provided in responses to the information request issued at the time of the SoLR appointment to inform our decision on which supplier to appoint, this should not be seen as an endorsement of any particular requests that a supplier included in their RFI response. The supply licences provide that the SoLR would be able to make a claim to recover its reasonable incremental costs incurred in taking on the new customers where those costs are additional to the total amounts recovered from the customers for the supply where it has not waived its right to do so. We cannot give assurance, prior to the appointment of the SoLR, as to what costs can be claimed for, or over what period. The onus is on the SoLR to submit a claim that is supported by evidence and demonstrates why the amounts claimed meet the criteria for SoLR levy claims and should be allowed. Ofgem will then take all relevant information into account in deciding on whether to consent to any claim, or not, given all the circumstances of the case.

### General

Ofgem's general preference is for a SoLR not to make a claim for a LRSP for costs it has incurred carrying out its role. However, we do recognise that circumstances may exist which would justify a departure from this general rule and that the costs of this claim will ultimately be paid by consumers. In our assessment of the claim, consideration has been given to the interests of current and future consumers, particularly those in more vulnerable circumstances.

Historically, some SoLRs have waived their right to make that claim through the SoLR processes. Recent SoLRs have not waived those rights as the recent costs associated with becoming a Supplier of Last Resort have been significant. In the particular circumstances of this claim, and in line with the relevant licence conditions, we consider it appropriate to allow for the additional and otherwise unrecoverable costs summarised in Table 1 to be recovered via a LRSP.

In granting consent for this claim, the net costs incurred by the supplier acting as a SoLR in an emergency situation will be spread across all consumers, rather than borne solely by the SoLR and its customers. We consider it to be in the interest of current and future consumers to allow this claim to ensure that the consumer safety net provided by the SoLR process remains viable into the future, and the stability of the retail energy market is not further undermined to the detriment of all consumers.

### Condition

Ofgem has made its consent to this LRSP claim conditional on confirmation by E.ON Next that this claim is Subsequent Levy Claim for the purposes of the True-up Agreement between E.ON Next and Ofgem and that the terms of the True-up Agreement continue to apply to this and subsequent claims in respect of the Last Resort Supply Direction. We have made this decision because it has the effect of allowing additional time to finalise claims for LRSPs following multiple Last Resort Supply Directions in difficult market conditions. We consider that it will enable suppliers to provide additional supporting evidence for costs that have not yet been approved by Ofgem, as well as allowing Ofgem to ensure the benefit of any monies recovered from the administrators of the failed suppliers can be utilised for consumers' benefit.

### **Cost category: Wholesale**

In our published decision on the claims true-up process<sup>23</sup> we explained that all SoLRs appointed in the period from September – December 2021 should be able to recover additional and otherwise unrecoverable wholesale costs reasonably incurred as part of the SoLR role relating to energy delivered up until 31 March 2022 or until the end of their 6-month SoLR direction, whichever is later. This has been necessary largely as a result of a period of extreme wholesale energy price volatility and record high prices, resulting in wholesale direct fuel costs often far exceeding those assumed in the default tariff price cap over the period. The bulk of these costs were considered in the December 2021 initial claim, by which time most initial wholesale energy purchases had taken place.

In this assessment we have analysed the information provided by suppliers, to:

- Assess whether costs being claimed for are consistent with the criteria set out earlier in this letter and our September 2022 Decision on the true up process
- Assess the reasonableness of assumptions made and decisions taken, including for example demand forecasting and hedging strategies, against the criteria we consider in assessing claims
- Assess the specifics of the reported wholesale market trades, including trade date, contract type, price, and volume. Specifically, we have considered whether trade prices are consistent with market benchmarks and price assessments
- Assess cost per MWh and cost per customer to facilitate comparisons between claims
- Assess the amounts deemed to have been recovered from customer charges, including the applicability of various price cap allowances, and hence offset against the wholesale costs incurred

### **Decision**

The E.ON Next true-up claim submitted on 7th October 2022 includes £18,350,290.79 in wholesale costs for Igloo. Following the above assessments, and having considered the responses received to our minded to position consultation, as well as carrying out further assurance of our own calculations, we consider that the claimed amount is not fully consistent with our criteria and we have decided to consent to the claim with the following deductions:

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<sup>23</sup> [Decision on last resort levy claims true-up process | Ofgem](#)

- A deduction of [REDACTED] has been made for Igloo as part of our final decision for the revenue received from SoLR customers in respect of the Backwardation allowances in the price cap. Our final decision is unchanged from our minded to position, other than a small adjustment to reflect rounding.
- A deduction of [REDACTED] has been made for Igloo as part of our final decision for the revenue received from SoLR customers in respect of the Contracts for Difference (CfD) Interim Levy Rate (ILR) allowance in the price cap in cap period 7. Our final decision is adjusted from our minded to position for the reasons set out in the following sections.
- We have decided to retain the deduction of [REDACTED] for costs of trades associated with shaping as set out in our minded to decision.

The final total deduction for Igloo is [REDACTED], which is [REDACTED] less than the proposed deduction of £14,822,426.95 in the minded-to decision. This results in a net wholesale true-up claim of [REDACTED] as opposed to £3,527,863.84 set out in the minded-to decision. When accounting for the initial claims made in December 2021, the total wholesale costs approved are [REDACTED], as opposed to £148,821,103.67 set out in the minded-to decision.

*Table 2 Summary of wholesale costs*

Item	Cost	Initial Claim	True-up claim	Deduction category	Deduction amount (minded-to)	Deduction amount (final decision)	Minded-to position on claim	Final position on claim
1	Wholesale	£145,293,240.07	£18,350,290.79	Backwardation	£1,474,679.77			
				Contracts for Difference	£3,294,552.09			
				Shaping	£10,053,195.09			
							£3,527,863.84	

Note: We are unable to calculate the proportion of the wholesale claim made up of backwardation, CfD and shaping. As such, we have shown the deductions above in relation to the overall wholesale claim.

### **Backwardation**

#### **Summary of minded to position**

In February 2022 Ofgem introduced a retrospective allowance into the default tariff cap to allow suppliers to recover the systematic and unrecoverable backwardation cost for winter 2021/22, beyond the normal basis risk inherent in the cap. An amount of £8 per customer (at typical consumption) was included within the cap for the year starting 1

April 2022, and a further allowance of £6 per customer was introduced in August 2022, to be recovered in the year from 1 October 2022.

In our minded to decision, the relevant backwardation deduction for each supplier was based on our best view (given the information submitted by the supplier as part of its claim) of:

- a) the number of SoLR customers that remained with that supplier as of the end of winter 2021/22 and
- b) the annualised demand of those customers.

We noted that we preferred this to an approach based on suppliers' own forecasts of their SoLR customers' demand in the period from 1 April 2022, because the latter approach would result in deductions that are dependent on suppliers' forecasts of future customer numbers which have proved to be highly uncertain and prone to error in this unprecedented time for the market (as seen by previous 'unexpected SVT demand' allowances). We preferred it to an approach based on the number of SoLR customers at the time of appointment, because that approach would not account for the fact that some SoLR customers may have since switched to fixed tariffs or other suppliers which did not take on any SoLR customers in winter 2021/22.

#### Summary of consultation responses

In relation to the standardised backwardation deduction, three suppliers that responded to our consultation confirmed that they understood and did not oppose the rationale for making this deduction in principle. Some respondents raised challenges regarding the specific demand-base used, suggesting that this would overstate the revenue that would be recovered under the backwardation allowance. One supplier questioned whether the deduction was consistent with Ofgem's decision not to allow claims for costs relating to supply after the six-month direction period.

Specifically in relation to its claims, E.ON Next confirmed that it understood the approach taken by Ofgem to calculate the backwardation deduction. It noted that the approach (like that taken by E.ON Next in its own claim) is based on forecasts and that the actual amount recovered under the backwardation allowance will not be known until September 2023. E.ON Next therefore intends to carry out a further review when the necessary information relating to the backwardation allowance is available, and if it identifies further costs to be claimed, will submit a further levy claim in 2023.

#### Reasons for decision

We have decided to deduct an amount for E.ON Next's claim to reflect the backwardation allowances in the cap.

We have decided that it will be open to SoLRs to submit a further claim in 2023 in relation to the backwardation deduction if they consider that new evidence exists to support such a claim. We note that an important consideration in assessing any such claim will be the extent to which it is appropriate to base the amount to be deducted on outturn demand, rather than seasonally normal demand (given the potential inconsistency with how costs for winter 2021/22 have been treated).

We also note that, in calculating the backwardation deduction for the minded-to decision, Ofgem relied on inputs which were rounded to different numbers of decimal places. For consistency, we have for our final decision used unrounded inputs, as they appear in the

relevant workbook submitted by suppliers alongside their claim, or annex to the default tariff cap. This results in small adjustments to backwardation deductions for all claims.

### **CfD**

#### **Summary of minded-to position**

The default tariff cap relating to electricity customers includes an allowance for costs incurred in relation to the CfD scheme, which is a government scheme aimed at supporting low carbon electricity generation. The charges that suppliers face under the CfD scheme depend on wholesale electricity prices, with higher prices resulting in lower costs for suppliers (all else equal). The allowance included in the cap is based on Low Carbon Contract Company (LCCC) forecasts of the relevant charges as they exist prior to the cap being set,<sup>24</sup> which are in turn based on forward prices observed at that time of the forecast.

The increases in wholesale prices which followed the cap for winter 2021/22 being set in August 2021 led to SoLRs paying prices for wholesale electricity for the customers of the failed suppliers which were well in excess of the direct fuel allowances included in the cap. However, increases in wholesale electricity prices also resulted in CfD costs for those customers that were significantly lower than the relevant allowance in the cap.

As we set out in our February 2022 price cap decision on the potential impact of increased wholesale volatility on the default tariff cap, for non-SoLR customers, this benefit was not realised in most cases, as suppliers had hedged their CfD risk earlier in 2021, when wholesale prices were lower. However, we consider that this is unlikely to apply to SoLR customers. This is because, where a supplier hedged their CfD exposure for SoLR customers, this would have been at much higher wholesale prices given the timing of the SoLRs, locking in a lower CfD cost than included in the cap. And where a supplier did not hedge, they would have realised the outturn CfD cost – which given high Day Ahead wholesale prices would have been a net payment back to the SoLR in question through the CfD scheme.

To avoid SoLRs over-recovering in relation to wholesale costs of their SoLR customers, we were therefore minded to deduct an amount from claims equivalent to the demand-weighted interim levy rate component of the default tariff cap for period 7 multiplied by the volume of electricity being claimed for, on the basis that the revenue generated under the CfD allowance would have offset the wholesale costs incurred by suppliers.

#### **Summary of consultation responses**

In relation to the standardised CfD deduction, three suppliers that responded to our consultation confirmed that they understood and did not oppose the rationale for making this deduction, and one supplier did not comment on this deduction. Some respondents raised challenges in relation to the demand-base used. One supplier questioned if the CfD deduction was consistent with the rest of the price cap, and that Ofgem were being selective about deductions made when some elements of the price cap may adversely affect suppliers.

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<sup>24</sup> [August 2021, Default tariff cap, Annex 4](#)

Specifically in relation to its claim E.ON Next said that having reviewed the methodology used by Ofgem to calculate the CfD deduction, and noting the consistent approach which had been applied across SoLRs, it accepted the deduction made from its claim.

#### Reasons for decision

In line with our minded-to position, we have decided to deduct an amount from E.ON Next's claim to reflect revenues recovered from SoLR customers in winter 2021/22 under the CfD allowance in the price cap. However, compared to the minded-to position, and having considered the details of E.ON Next's claim further, we have decided to reduce the amount we will disallow from E.ON's claim. This is because the deduction set out in the minded-to position was based on the total electricity volumes for winter 2021/22 which were the subject of E.ON Next's claim. As set out in the Shaping section of this letter, we have decided to disallow costs claimed by E.ON Next's in relation to a part of those volumes – and specifically volumes associated with short-term trades reported for November 2021 onwards. To ensure consistency with both how we have treated the other parts of E.ON Next's claim, and the claims of other SoLRs, we have decided to adjust the CfD deduction for E.ON Next so that it based on the ILR multiplied by E.ON Next's claimed electricity volume, excluding the short term trades that we have disallowed.

Finally, we note that in calculating the CfD deduction for the minded-to decision, Ofgem relied on inputs which were rounded to different numbers of decimal places. For consistency and greater accuracy, we have for our final decision used unrounded inputs, as they appear in the relevant annex to the default tariff cap. This results in small adjustments to the CfD deductions for all claims.

#### **Shaping**

##### Summary of minded-to position

In our minded to decision, we noted that elements of shaping and imbalance were included in the claim by E.ON Next. Ofgem clearly stated in our policy decision in September 2022 that, to avoid overcompensating SoLRs through the levy, any SoLR seeking to claim for further incremental shaping and imbalance costs must demonstrate that the costs for their SoLR customers were more than those faced by their non-SoLR customers.

The information provided by E.ON Next showed shaping and imbalance costs above those accounted for by allowances in the cap. However, we had not seen evidence in E.ON Next's response to demonstrate that the shaping and imbalance costs incurred in relation to its SoLR customers exceeded those of the remainder of its customer base.

Given this, in the absence of such evidence, we were minded to deduct an amount from E.ON Next's claim for Igloo to reflect our estimate of the shaping/imbalance costs that the SoLR had claimed for. We calculated this amount by removing all 'short-term' trades (which we defined for this purpose as Day Ahead, Within Day and imbalance) carried out between November 2021 and March 2022. To ensure consistency, we also deducted the offsetting shaping and imbalance allowances from the revenue assumed by E.ON Next to be recovered from customers.



## Summary of consultation responses

In its response to our consultation, E.ON Next stated that it did not agree with Ofgem's policy decision requiring that SoLRs seeking to claim for further incremental shaping and imbalance costs must demonstrate the costs for SoLR customers were more than those for their non-SoLR customers – and therefore it also did not agree with Ofgem's minded-to decision to disallow these costs from its claim.

As previously communicated to Ofgem, E.ON Next submitted that its decision to agree to act as SoLR for Igloo, Enstroga and Symbio was based on its expectation that SoLRs would be able to recover these costs. It said that the shaping and imbalance costs it had claimed had only been incurred as a result of the unmitigated increase in supply volume compounded by a volatile market. As a responsible supplier with a well-managed hedge position, E.ON Next would not have incurred these costs unless it had been appointed a SoLR for these failed suppliers.

E.ON Next further argued that the criteria used by Ofgem to assess claims are not fit for purpose. Where suppliers are unable to recover reasonable costs through customer charges, there must be a means for suppliers to recover them elsewhere. If not, E.ON Next stated that it must be made clear to suppliers at the time of appointment that certain costs cannot be recovered.

Finally, E.ON Next noted that - were Ofgem to disallow the shaping and imbalance element of its claim in its final decision – it would withdraw its commitment, made in their response to the RFI during the SoLR process to absorb some of the costs of Igloo on the basis that it considered its claim had not been treated fairly.

## Reasons for decision

We have decided to disallow the part of E.ON Next's claim that we estimate to relate to shaping and imbalance costs. This is because no evidence has been provided by E.ON Next to demonstrate the costs for its SoLR customers were more than those faced by its non-SoLR customers. In particular, E.ON Next's claim for these costs conflicts with the criteria set out above that costs being claimed for must be as a result of taking on customers in an emergency situation as opposed to normal customer acquisition routes; and that the costs being claimed should be additional to those of existing customers.

In relation to E.ON Next's expectations at the time of responding to the RFI issued to suppliers as part of the SoLR process, we note that we cannot give assurance, prior to the appointment of the SoLR, as to what costs can be claimed for, or over what period. The onus is on the SoLR to submit a claim that is supported by evidence and demonstrates why the amounts claimed meet the criteria for SoLR levy claims and should be allowed. Ofgem will then take all relevant information into account in deciding on whether to consent to any claim, or not, given all the circumstances of the case.

We do not agree with E.ON Next's submission that these criteria are not fit for purpose – instead, we consider that they are crucial to ensure that claims are consistent with the requirements of the licence condition, and that consumers' interests are protected.

Finally, we note that a commitment to contribute an amount towards the cost of Igloo was made by E.ON Next when we made the decision to appoint it to act as SoLR for Igloo customers. No condition about fair treatment of LRSP claims by E.ON Next could meaningfully modify that commitment as Ofgem has a statutory duty to act fairly and

reasonably in exercising its discretion to consent to any LRSP claim. In reaching our final position on the E.ON Next claim for a LRSP in respect of its SoLR role for Igloo, Ofgem has taken into account the statutory framework, all the relevant circumstances and no irrelevant factors, as required in reaching a fair and reasonable decision.

Under the supply licence Standard Licence Condition (SLC) 8.3 a supplier is required to take all reasonable steps to honour any commitment made to Ofgem before being appointed to act as SoLR.

In the letter provided to Ofgem on 12 December, E.ON Next made representations to Ofgem regarding why we should not deduct the amount from the E.ON Next claim. Nothing raised in that letter addresses new issues, and restates E.ON Next's position with respect to the treatment of wholesale costs in particular through the True Up process.

Ofgem has decided to reduce by the amount i the amount we consent to E.ON Next claiming as LRSP. The reason for this is that we consider that E.ON made a commitment when responding to our RFI to absorb the amount of the additional wholesale costs incurred in acting as SoLR.

### **Cost category: Credit balances**

Under SLC 9.4(b) a SoLR can claim 'any sums paid or debts assumed by the licensee to compensate any Customer in respect of any Customer Credit Balances'.

### Decision

E.ON claimed £1,655,361.00 in compensation to ex-customers of Igloo for their credit balances. We consider that the claimed amount is consistent with our criteria. We have consented to E.ON Next claiming [REDACTED] for sums paid to compensate customers for credit balances, with a deduction of [REDACTED] for uncashed cheques and an adjustment for a rounding error.

*Table 3: Summary of claims and decision for credit balances*

Item	Cost	Initial Claim	Interim Claim	This claim	Minded-to deductions	Decision on deductions	Decision on this claim
2	Credit Balances	£0	£32,021,725.00	£1,655,361.00	£24,796.88		

### Summary of minded-to position

E.ON Next requested our consent to claim £1,655,361.00 through the LRSP for the cost of refunding credit balances of customers and former customers held at the time the Igloo direction was issued.

In our minded-to-position we noted that SoLR could claim sums paid or debts assumed to compensate customers of the failed supplier in respect of customer credit balances.

We were minded-to not allow claims for the value of uncashed cheques where the SoLR had compensated customers for credit balances by sending cheques. In our minded-to position we explained that this was because we did not consider that it would be appropriate to allow SoLRs to claim for closed account credit balance cheques until the point that they are actually cashed for the following reasons:

1. To avoid consumers bearing the cost of compensation for credit balances never in fact received by customers of the failed supplier.
2. To ensure that the SoLR does not profit from a situation where some credit balance cheques are never presented; and
3. Noting that a future LRSP claim can be made so that E.ON Next can recover the cost of any credit balance cheques presented after the cut off point for the current claim.

In our minded-to-position we considered whether the amount E.ON Next is seeking to claim for credit balances is otherwise unrecoverable; it may still be the case that E.ON Next is able to recover some of this claimed amount through the ongoing administration process for Igloo, to which E.ON Next has, in accordance with the requirements of the LRSP process, submitted a subrogated creditor claim for the sums paid to compensate customers for credit balances. In our minded-to-position we noted that, as we propose to make our decision on the claim ahead of the conclusion of the liquidation process, the timescale of which is uncertain, we were minded-to approve this element of the claim, subject to the outcome of the Igloo liquidation process.

In our minded-to-position we considered that the claimed amount for honouring the credit balances of open accounts was consistent with our criteria and we were minded-to consent to this portion of the claim. However, E.ON Next had been unable to provide a breakdown of cashed and uncashed cheques specifically for its SoLR customers. E.ON Next provided an alternative methodology for the calculation of the likely amount of uncashed cheques that we believe is a reasonable alternative when detailed data is not available. E.ON Next had not provided evidence to explain their calculations in their methodology. However, we were minded, in principle, to allow this portion of the claim, taking into account the deduction using the methodology proposed by E.ON Next provided that E.ON Next gave us further evidence to allow us to validate the calculations in the alternative methodology.

### Summary of consultation responses

We received two stakeholder responses on our minded-to-position: one from E.ON Next and one from British Gas on credit balances. E.ON Next stated that following further work, it had been able to identify all cheques issued to SoLR customers and those which remain uncashed and it expects the claim in the final decision to be revised to reflect this. British Gas stated that it supported our stance of allowing all credit balances refunded to customers to be reclaimed via the levy. It also stated that it supported the pragmatic approach for uncashed cheques that will allow it to claim any issued cheques that are cashed by customers in the future.

### Reasons for decision

E.ON Next requested our consent to recover £1,655,361.00 for the cost of refunding credit balances to some former customers of Igloo. In our minded-to-position, Ofgem stated that in principle we are minded-to allow the claim, subject to E.ON Next providing sufficient evidence that all refunded credit balances have been received by the customer,

or the value of uncashed refund cheques have been deducted from the amount claimed. E.ON Next provided further evidence and data during the consultation period, which included actual data for uncashed cheques for the SoLR customers. In its consultation response, E.ON Next stated that it expected the claim to be revised in line with the evidence it had submitted. We have considered the consultation responses, noting that no objections were raised to the approach proposed on uncashed cheques, and one supplier noted their support for this approach. We have also considered the additional evidence submitted by E.ON Next and are satisfied that the claim is consistent with our criteria. Therefore, we have decided to consent to a LRSP claim of [REDACTED] for sums paid to compensate customers for credit balances with a deduction of [REDACTED] for uncashed cheques and an adjustment for a rounding error.

### **Cost category: Working capital**

The policy decision on last resort levy claims true-up process<sup>25</sup> explained what would be required for SoLRs to claim for financing or working capital costs incurred. The policy decision also set out the requirement for suppliers to demonstrate, with evidence, that their financing cost claim delivers value for money for consumers and is the best possible rate they could achieve given their individual circumstances.

#### Decision:

E.ON Next claimed £10,676,766.00 for the cost of working capital, followed by a revised claim totalling £9,753,983.16. The calculation includes costs incurred to reflect actual costs incurred and the timescale for the recovery of those costs as set out in our published policy decision.

We consider that the revised claim amount is consistent with our criteria. Following corrections made by us to reflect corrections in other cost categories, we have consented to E.ON Next claiming up to [REDACTED] as part of an LRSP.

*Table 4: Summary of claims and decision for working capital*

<b>Item</b>	<b>Cost</b>	<b>Initial Claim</b>	<b>True-up claim</b>	<b>Revised true-up</b>	<b>Minded-to deduction</b>	<b>Decision on deduction</b>	<b>Decision on this claim</b>
3	Working capital	£0.00	£10,676,766.00	£9,753,983.16	£0.00	[REDACTED]	[REDACTED]

#### Summary of minded-to position

E.ON Next submitted a claim for the cost of working capital amounting to £10,676,766.00. E.ON Next submitted evidence for their proposed rate of interest, which we believe is reasonable when compared against the range of rates secured for other supplier's initial claims. We did not initially receive sufficiently detailed evidence from

<sup>25</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-09/Decision%20on%20the%20last%20resort%20levy%20claims%20true-up%20process.pdf>

E.ON Next that would allow us to undertake a quantitative assessment of their methodology and calculations. We were therefore minded-to, in principle, allow the claim, dependent on the submission of sufficient evidence and upon the recalculation and resubmission of the working capital claim following deductions in other cost categories in our minded-to position. As noted in our minded-to letter, our decision on the reasonableness of the rate applied by E.ON Next applies in this case, and for this purpose only, and means that we may take a different view as to what is a reasonable rate, or approach to, financing for other purposes or in other cases.

#### Resubmission of claim for working capital

In our minded-to letter we stated that working capital may only be claimed on costs that meet our criteria for assessing claims<sup>26</sup>. In light of our minded-to position to make deductions to other cost categories and/or to make deductions where further evidence is not forthcoming, the total amount of working capital claimed for of £10,676,766.00 was subject to E.ON Next resubmitting a revised working capital claim taking into account the deductions in our minded-to position. In order to fully assess the working capital aspect of the claim, we therefore required E.ON Next to recalculate the working capital element of their claim using, as costs incurred, the amounts we stated we were minded-to consent to in our minded-to letter.

In our minded-to letter we also stated our expectation that E.ON Next should follow the same methodology, and apply the same rate, as their 7th October submission, and to clearly set out which costs have been reduced or removed. We also asked that E.ON Next submitted their full calculations to allow us to undertake these calculations on working capital unilaterally for our decision, so that we can work out what their working capital allowance should be, without having to revert to E.ON Next. While we noted that, based on the evidence submitted to us, the claim appeared consistent with our criteria, in order to arrive at a decision on working capital costs we required that suppliers submit to us their calculations that we could unilaterally validate and replicate and amend for final decision, without having to revert to the supplier. In the Minded-to Position process we had been unable to replicate what suppliers had done on working capital, and could not deduct the disallowances made through the minded-to position.

In our minded-to letters we requested that the SoLRs provide further evidence which would allow us to effectively assess the costs claimed against our criteria. With the exception of one supplier, all SoLRs provided the evidence required from them in order to support their working capital claims. We thank suppliers for being so engaged with Ofgem during the consultation period.

#### Summary of consultation responses

Ofgem thanks suppliers and consumer groups for responding to our consultation, and for their active engagement with the consultation process, and Ofgem, during this period. We did not receive any specific comments on our minded-to position on working capital costs from E.ON Next, in relation to this claim.

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<sup>26</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-11/SOLR%20Levy%20-%20Minded%20to%20position%20for%20consultation%20-%20Igloo%20-%20E.ON%20Next.pdf>

### Reasons for decision:

As noted above, we were not provided with sufficiently detailed evidence by our 7<sup>th</sup> October deadline in order to allow us to undertake a full quantitative assessment of the methodology and calculations underpinning the submitted claim for the cost of capital ahead of publication of our minded-to position.

E.ON Next subsequently submitted an additional working capital model, followed by a revised working capital claim totalling £9,753,983.16, taking into account the deductions in our minded-to position. The re-submitted calculations were sufficiently clear to allow us to unilaterally undertake additional recalculations to account for adjustments to the deductions set out in our minded-to letter.

Based upon our assessment of the evidence provided, the submitted re-calculation of the claim, and the relevant consultation responses received, we consider that the rate at which working capital has been calculated, and the methodology followed, is consistent with our criteria and reasonable in these cases and for these purposes only. Our decision on the reasonableness of the rate applied by E.ON Next applies in this case, and for this purpose only, and means that we may take a different view as to what is a reasonable rate, or approach to, financing for other purposes or in other cases.

### Further adjustments

In light of our decision to make further adjustments to other cost categories, we have adjusted the working capital calculation further by unilaterally adjusting the values deducted from the model provided by E.ON Next.

This has resulted in the working capital claim being adjusted from £9,753,983.16 to [REDACTED]

Therefore, we are proceeding with the decision that we proposed in our minded-to position, to approve a LRSP claim of [REDACTED] for working capital. Our decision is therefore to consent to the recovery of these costs.

### **Cost category: "Other costs"**

We understand that other costs may have been incurred when undertaking activities as part of becoming a SOLR (for example, legal fees). We have used the criteria set out in our published policy decision to assess whether these costs are appropriate and should be recovered through a LRSP. The other costs that E.ON Next has claimed are detailed below.

E.ON Next claimed £3,213,101.11 in other costs incurred as a result of complying with the Last Resort Supply Direction. We consider that the claimed amount is not consistent with our criteria.

We have consented to E.ON Next claiming a up to [REDACTED], which we consider to be a more accurate calculation of the amount of other costs to be paid as part of a LRSP claim.

*Table 5: Summary of claims and decision for other costs*

Item	Cost	Initial Claim	This claim	Minded-to deductions	Decision on deductions	Decision on this claim
4	Transitional service agreement	£0	£2,426,680.63	£0		
	Internal resourcing	£0	£112,296	£112,296		
	IT	£0	£566,259.60	£0		
	Legal	£0	£28,791.56	£0		
	Operational	£0	£62,025.49	£0		
	Consultancy	£0	£17,047.83	£0		

### Transitional Services Agreement Costs

#### Summary of minded-to position

E.ON Next requested our consent to claim £2,426,680.63 for transitional services agreement costs incurred when onboarding former customers of Igloo. E.ON Next had provided sufficient evidence, including the agreement, invoices and explanatory narrative to support their claim and satisfy us that these costs were additional, directly incurred as part of the SoLR role, otherwise unrecoverable, unavoidable and efficient in relation to E.ON. Next's role as a SoLR for Igloo. In our minded-to position we accepted that E.ON Next could recover these costs.

#### Summary of consultation responses

E.ON Next did not comment on this aspect of the claim in their consultation response. We did not receive any further responses about E.ON Next's request to claim for transitional service agreement costs incurred as a result of migrating former customers of Igloo to E.ON Next.

#### Rationale for decision:

We recognise that working with the administrator of a failed supplier and having transitional service agreements in place was required to allow successful transfer of customers from Igloo and these costs were incurred as a direct result of E.ON Next acting as a SoLR, were additional and otherwise unrecoverable. Therefore, based on the information submitted as part of the claim and within the particular circumstances of this case, we consider it reasonable to allow E.ON Next to recover these costs and we have approved the full amount claimed.



## **Internal Resourcing Costs**

### Summary of minded-to position

E.ON Next requested our consent to claim £112,296 for internal resourcing costs to support the transitioning of customers from Igloo to E.ON Next. E.ON Next originally provided evidence to support their claim including timesheets and narrative explanation verified by the audit. Our minded-to position was to not approve these costs as we considered them not to be additional to those which E.ON Next would have faced in the course of normal retail operations. This is because the costs related to existing staff who were temporarily transferred from their existing function and we considered that E.ON Next would have incurred these salary costs irrespective of acting as a SoLR. As a result, we consider that these costs do not meet the criteria of being additional to the costs of serving existing customers and being directly incurred as part of the SoLR role. This position aligned with the position we took when assessing initial claims during winter 2021/22.

### Summary of consultation responses

In their consultation response, E.ON Next disagreed with our minded-to position. They highlighted that the SoLR events in the second half of 2021 were unprecedented and, therefore, supporting the migration of customers from failed suppliers required significant support. E.ON Next further stated that colleagues within their business, who were due to leave had tenure extended specifically to cover SoLR activity; noting that the alternative would have been to employ external consultants. E.ON Next stated that they would be mindful of how future SoLR events are resourced.

### Rationale for decision:

We accept that staff within E.ON Next have been reassigned to support the migration of customers from Igloo to E.ON Next and that there would be an opportunity cost to E.ON Next here. We also note that E.ON Next could have used external resourcing to support migration activity, but the fact they were able to carry out this activity using existing staff meant that this could reduce the overall LRSP claim. However, we consider that suppliers should make '*all reasonable efforts to avoid the cost in the first instance or absorb the cost*'. After considering all the available information we consider that these costs were not additional to E.ON Next's expected costs and were not unavoidable, as they could be absorbed into existing staffing costs. Since staff resources were reassigned to support the migration, we do not consider these costs were additional costs directly incurred as a result of acting as SoLR. Therefore, based on the information submitted as part of the claim and within the particular circumstances of this case, we do not consider it reasonable to allow E.ON Next to recover these costs and we have not approved the amount claimed.

## **IT costs**

### Summary of minded-to position

E.ON Next requested our consent to claim £566,259.60 for technological and IT costs incurred when migrating former customers of Igloo to E.ON Next's customer platform. In our minded-to position, we noted that at the time of the customer migration from Igloo,

E.ON Next was migrating to a new customer platform across its business and that E.ON Next had not provided sufficient evidence to demonstrate that the costs claimed were additional to the costs of E.ON Next serving existing customers. We were minded to consent to the claim on the condition that E.ON Next provided further evidence within the consultation period that these costs were over and above costs E.ON Next would have incurred if these customers were acquired outside of the SoLR process, and through normal customer acquisition routes, and not related to the migration of existing E.ON Next customers to the new customer platform.

#### Summary of consultation responses

E.ON Next engaged in bilateral meetings with Ofgem throughout the consultation period, and submitted additional evidence for Ofgem to consider throughout the consultation period.

From their consultation response E.ON Next noted that we had requested further evidence support the claim which E.ON Next have provided in the consultation period. They stated they expect our final decision to be in line with the minded-to.

#### Rationale for decision:

Having considered the additional evidence submitted by E.ON Next, we are satisfied with the evidence submitted, which shows that the costs incurred are additional to the cost of serving existing E.ON Next customers, are as a result of acting as a SoLR in an emergency situation and are not recoverable in any other way. Furthermore, we are satisfied that the costs incurred are not directly related to the migration to existing E.ON Next customers to a new customer platform and are distinguishable from these wider organisational costs. E.ON Next provided information to support this. Therefore, based on the information submitted as part of the claim and within the particular circumstances of this case, we consider it reasonable to allow E.ON Next to recover these costs and we have approved the full amount claimed.

### **Legal Costs**

#### Summary of minded-to position

E.ON Next requested our consent to claim £28,791.56 for legal costs incurred when acting as a SoLR for customers of Igloo. E.ON Next engaged legal resources to support them acting as the SoLR for three failed suppliers concurrently. The costs have been apportioned against the claim for each failed supplier as agreed with E.ON Next. E.ON Next provided us evidence to support the claim, which included invoices for the work and an explanatory narrative as to why this element of the claim met our criteria. This was supported and verified by the audit submitted with the claim. In our minded-to position, we were satisfied that the evidence supported the claim and that the costs have been directly incurred by E.ON Next acting as a SoLR.

#### Summary of consultation responses

We did not receive any responses referencing E.ON Next's request to claim for a LRSP for legal costs incurred as a result of migrating former customers of Igloo to E.ON Next.

### Rationale for decision:

Noting that in the minded to position we confirmed that we were satisfied with the evidence submitted, and that no consultation responses commented on this aspect of the claim. Therefore, based on the information as part of the claim and within the particular circumstances of this case, we consider it reasonable to allow E.ON Next to recover these costs and we have approved the full amount claimed.

## **Operational costs**

### Summary of minded-to position

E.ON Next requested our consent to claim £62,025.49 for operational costs incurred when onboarding former customers of Igloo. E.ON Next used an outsourced contact centre to help them with customer service when migrating customers. E.ON Next submitted evidence, which included invoices of the costs involved and an explanatory narrative as to why the costs met our criteria. In our minded-to position, we were satisfied that these costs have been incurred as a direct result of E.ON Next acting in its role as a SoLR for former customers of Igloo, are additional to those E.ON Next would have incurred in the course of its normal retail operations and are not recoverable in any other way. E.ON Next provided evidence to show that they had sought to minimise these costs by utilising existing contracts. We agreed with the principle that it would cost more to get new contractors in place and we also agreed that utilising existing contracts would not cause any disruption to existing customers.

### Summary of consultation responses

E.ON Next engaged in bilateral meetings with Ofgem throughout the consultation period, and provided additional evidence to support their claim and a reasoned explanatory narrative.

E.ON Next did not comment on this aspect of the claim in their formal consultation response. We did not receive any responses referencing E.ON Next's request to claim for a LRSP for operational costs incurred as a result of migrating former customers of Igloo to E.ON Next.

### Rationale for decision:

Having reviewed the evidence E.ON Next submitted to support their claim and a reasoned explanatory narrative, we are satisfied that these costs are additional, directly incurred as part of the SoLR role, otherwise unrecoverable, unavoidable and efficient. Therefore, based on the information submitted as part of the claim and within the particular circumstances of this case, we consider it reasonable to allow E.ON Next to recover these costs and we have approved the full amount claimed.

## **Consultancy Costs**

### Summary of minded-to position

E.ON Next requested our consent to claim £17,047.83 for consultancy costs incurred when they contracted a management consultancy firm to support operational teams with the customer migration process from Igloo to E.ON Next. E.ON Next provided evidence to support the claim which included invoices of costs incurred and narrative explanations backed with audit documentation. In our minded-to position, we were satisfied that the costs incurred are additional to those E.ON Next would have faced in the course of normal retail operations and are not recoverable in any other way. Furthermore, E.ON Next provided evidence to show that they had taken steps to minimise these costs by utilising existing contracts already in place. In our minded-to position, we considered it reasonable in the particular circumstances of this case to allow E.ON Next to recover these costs and we were minded-to approve the full amounts claimed.

#### Summary of consultation responses

E.ON Next did not comment on this aspect of the claim in their formal consultation response. We did not receive any responses referencing E.ON Next's request to claim for a LRSP for consultancy costs incurred as a result of migrating former customers of Igloo to E.ON Next.

#### Rationale for decision:

We consider E.ON Next's claim for consultancy costs were additional, directly incurred as part of the SoLR role, otherwise unrecoverable, unavoidable, and efficient in relation to acting as SoLR to former consumers of Igloo. Therefore, based on the information submitted as part of the claim and within the particular circumstances of this case, we consider it reasonable to allow E.ON Next to recover these costs and we have approved the full amount claimed.

#### **Recovery of LRSP claim**

E.ON Next will be paid the amounts specified in the Ofgem's consent documents, published alongside this letter, by the relevant licensed gas and electricity network operators. This will be recovered by the network operators in proportion to the total number of nationwide gas and electricity supply points.

Yours faithfully,

**Neil Lawrence**  
**Director of Retail**