Retail Financial Stability Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Emailed to: supplier@ofgem.gov.uk

10th May 2021

Dear Retail Financial Stability Team,

<u>Consultation – Supplier Licensing Review: reducing credit balance mutualisation</u>

Drax Group plc (Drax) owns two retail businesses, Haven Power and Opus Energy, which together supply renewable electricity and gas to over 350,000 business premises. Drax also owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8.3 million homes across the UK. This is a joint response on behalf of Haven Power and Opus Energy and is non-confidential.

As Ofgem's proposals relate to domestic consumers, we have only responded to Question 10 in the consultation. Please refer to the Appendix for our response.

More generally, we welcome the steps Ofgem and BEIS are taking to review the Renewables Obligation (RO) Scheme and look forward to the upcoming consultation. We're pleased that Ofgem recognises the scale of mutualised costs that can occur due to non-payment of liabilities under the RO Scheme, and that these costs are typically significantly higher than those due to mutualised credit balances. We strongly believe that a review of the RO Scheme is necessary to address the risk of large liabilities accruing before a supplier breaches its licence conditions and Ofgem can intervene.

As part of that review, we would also welcome an assessment of the current mutualisation arrangements, whereby costs are mutualised across the domestic and non-domestic markets regardless of which market incurred the costs. It's not appropriate for the non-domestic market to be liable for the costs of failures in the domestic market (and vice versa) as the two markets are distinct and such a misallocation of costs would be both market distortive and unfair for the respective consumers in each market.

Based on past failures and the fundamental business/commercial practices deployed in each market, the likelihood of a Supplier failure is much lower in the non-domestic market. It therefore isn't appropriate for this market and its consumers to pay for the riskier practices of the domestic market. Indeed, the risk of domestic supplier failures and resulting mutualisation may increase in the short-term as a consequence of Ofgem's proposals, as domestic suppliers will have to adapt their business practices and financing arrangements to accommodate the new credit balance protections. The non-domestic market should not bear this transitional risk.

If you would like to discuss any aspect of our response, please do not hesitate to contact us.

Yours faithfully

Matt Young
Group Head of Regulation
Drax Group plc

Appendix

Question 10. Do you agree that these measures should apply only to domestic consumers?

Yes, we agree that these measures should apply only to domestic consumers. Under current licence conditions non-domestic credit balances can’t be claimed for under the Supplier of Last Resort process, and therefore these credit balances don’t pose any mutualisation risk to the sector. This is why it is vital that Ofgem re-examine the current mutualisation arrangements whereby costs are mutualised across the domestic and non-domestic markets regardless of which market incurred the costs.

Additionally, as Ofgem acknowledge, credit balances in the non-domestic market don’t build up to the same extent as in the domestic market because a significantly higher proportion of customers pay on receipt of an invoice (e.g. Variable Direct Debit or BACS payment) and manage their accounts much more closely, with payments tending to match usage.

Contact Address
Drax Group plc, 3rd Floor, Alder Castle, 10 Noble Street, London, EC2V 7JX
01757 618381 www.drax.com

Drax Corporate Limited
Registered Office: Drax Power Station, Selby, North Yorkshire, YO8 8PH
Registered in England and Wales Number: 05562058