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Sent by email to: supplier@ofgem.gov.uk

Dear Cameron and Jeremy,

Supplier Licensing Review reducing credit balance mutualisation

We agree with Ofgem that the current distortion through which failed suppliers can mutualise their liabilities must be mitigated as far as possible for the benefit of existing and future consumers. Preventing irresponsible suppliers from entering the market and subsequently mutualising cost as they exit is a distortion that must be remedied urgently. The market will not be properly protected from reckless suppliers until a robust and rigorous regime is introduced comparable to the capital adequacy requirements already established in the financial services sector.

For over two years, Centrica has consistently advocated for the introduction of prescriptive regulation to prevent the mutualisation of costs upon supplier failure. We have put forward evidenced arguments that the only way to fully prevent mutualisation of costs and adverse impacts on consumers and competition from supplier failures is by requiring all suppliers to protect 100% of their credit balances and Government policy costs – the ‘100% requirement’. Only by requiring suppliers to cover 100% of credit balances and Government policy costs will the risk of harm to consumers and competition be fully addressed.

Ofgem has itself recognised that suppliers gain a working capital benefit from credit balances:

“This can enable suppliers to take risks like offering loss-making tariffs, particularly if they collect more credit balances than they need to serve their customers

“Without the free sources of working capital there would be a check on this as investors and banks would only allow suppliers to pursue such a strategy if they were comfortable with the risk. Currently, suppliers can potentially avoid these types of constraints by using their customers’ money rather than shareholders’ or other investors. (emphasis added)

This plainly distorts competition at customers’ expense. As Ofgem states:

“suppliers using customer credit balances can fund unsustainably low-priced tariffs without adequate finances to do so in an effort to win the market share required to turn profitable”.

The current licensing regime allows irresponsible suppliers to effectively gamble with their customers' money, which can lead to unsustainable pricing resulting in supplier failures whose costs are mutualised and picked up by all consumers. Ofgem has calculated the total mutualised costs to be circa £236.8m¹ across credit balances and policy costs. This figure continues to provide a powerful business case for the need for prescriptive regulation, specifically the 100% requirement which could have prevented the total mutualised costs if it had been in place from 2018.

To advance the objectives of the supplier licensing review Ofgem must now:

- Implement the protection of surplus credit balances proposal by way of the threshold proposal as soon as possible. This is the minimum short-term action required of Ofgem to comply with its' principal statutory duty to protect consumers. A statutory consultation by the end of July 2021 will allow the licence condition to come into effect by the end of October 2021.
 - The statutory consultation should state that Ofgem will rigorously enforce the requirement to protect surplus credit balances, preventing non-compliant suppliers from gaining customers.
- Commit to consult, jointly with BEIS, on the protection of renewables obligations (RO) by the end of June 2021, in parallel to BEIS' wider work on retail markets.
- Modify the autorefund proposal so that it only applies where the supplier has an actual meter read and allows for suppliers to set a refund threshold, so that suppliers may hold up to £75 of customer money to offset against future payments. We have compelling customer research, in Appendix 1, that 86%² of our customers would prefer that we held on to a proportion of their credit balance.
 - Ensure that any amount retained by suppliers under this counterproposal is protected under the Ofgem proposal requiring suppliers to protect surplus credit balances.
- Separate the effective date of the implementation of the autorefund proposal from that of the threshold proposal so that latter can proceed immediately while ensuring sufficient time to design and implement a customer-centric approach to autorefund.
- Set clear expectations that suppliers cannot bypass the requirement to protect surplus credit balances by switching customers away from direct debit to other payment types, by issuing further guidance on the application of the financial responsibility principle (FRP).

All responsible suppliers should agree with Ofgem's view that “suppliers should bear an appropriate share of the cost of the mutualisation risk they pose to the market”, and therefore should support the threshold proposal.

Our response is accompanied by a legal annex that sets out why it is imperative that Ofgem acts now by implementing the threshold proposal to comply with its statutory duties, by addressing the consumer harm of mutualisation of costs.

¹ Based on figures within Ofgem's consultation document:

https://www.ofgem.gov.uk/system/files/docs/2021/03/cmp2_consultation_final.pdf

² Percentage of customer who would prefer British Gas to hold £25 or a greater proportion of their credit balance.

It is crucial that Ofgem now follows through on its threshold proposal urgently as anything less would make its decision vulnerable to challenge on appeal.

Appendix 1 sets out our views on the two Ofgem proposals in more detail. Furthermore, we set out the risks of gaming the proposals and how these risks may be addressed by Ofgem.

Appendix 2 contains our answers to the specific questions posed in Ofgem's consultation.

If you have any questions or would like to discuss our response, please contact me on Tabish.khan@centrica.com or 07789 575 665.

Yours sincerely

Tabish Khan
Centrica Regulatory Affairs

Appendix 1: Centrica views on Ofgem's policy proposals

In this appendix we set out our views on Ofgem's two proposals – our support for protecting surplus credit balances and our counterproposal for the autorefund of credit balances at the end of the customer's contractual year. Furthermore, we set out the risks of gaming the proposals and how Ofgem may prevent suppliers from gaming the proposals.

Even though we do not agree that Ofgem's current proposals will be as effective as the 100% requirement we have previously advocated for, we have provided constructive feedback on Ofgem's proposals to ensure benefits to consumers from their prompt implementation are maximised.

Protecting surplus credit balances – 'threshold option'

The threshold proposal will be an improvement upon the status quo and therefore it must be implemented as soon as possible.

Of Ofgem's two policy proposals the threshold proposal is the most likely to address the risk of mutualisation of costs upon supplier failure. The threshold proposal is an important step towards meeting the objectives of Ofgem's supplier licensing review, to minimise the likelihood of mutualised costs and ensuring suppliers bear an appropriate share of the mutualisation risk they pose to the market.

We agree with Ofgem that suppliers should not be able to fund their activities by using credit balances as free, unsecured working capital. The introduction of the threshold proposal will ensure that suppliers that use credit balances as free, unsecured working capital must either refund these balances to customers or protect them, thus reducing the mutualisation of costs should the supplier fail.

Credit-worthy suppliers should support this proposal and be able to meet it through parent company guarantees or letters of credit at short notice. Therefore, Ofgem's proposed implementation window of three months should allow suppliers enough time to put protections in place.

If a supplier is unable to comply with the threshold proposal, then this would suggest that the supplier is using customer credit balances as working capital and it will need to adjust its business model to ensure this is no longer the case, or exit the market in an orderly manner if it cannot finance its business in sustainably.

Business case

We are advocates for protecting 100% of credit balances and Government policy costs, and have previously proposed that Ofgem conduct a thorough impact assessment of the viability of a '100% requirement' as part of this consultation. Ofgem's latest impact assessment, as part of its current consultation, suggests that the costs of a 100% requirement outweigh the benefits. However, Ofgem also recognises that the distortive impacts on competition of suppliers using credit balances as free, unsecured working capital is hard to monetise. Therefore, we would argue that there is a clear and positive business case for protecting 100% of credit balances and Government policy costs once the competition benefits have been factored in.

Ofgem's threshold proposal has a positive business case for implementation even without factoring in the hard to monetise benefits. This would suggest that the business case would be even more compelling if a quantitative value could be added to the hard to monetise benefits – though in our view not as compelling as the 100% requirement. This evidence suggests there are clear net benefits to consumers and competition from implementing the threshold proposal as soon as possible and for re-considering the 100% requirement.

We are aware that certain under-capitalised suppliers are opposed to these proposals and yet have not proposed any alternatives other than to accept that consumers must pick up the costs of the failure of irresponsible suppliers – a proposal that Ofgem, Citizens Advice³ and Centrica agree is unacceptable. This opposition from certain suppliers suggests that they have unsustainable business models that may deliver lower prices in the short term but have a detrimental impact on both consumers and competition in the long run.

We have also heard arguments that Ofgem has based its impact assessment on 2018/19, which were exceptional years for supplier failures. While there were more failures in those two years than subsequent years, we have continued to see a succession of supplier failures in the years after with over 300,000 customers having to go through the Supplier of Last Resort process in both 2020 and 2021 to date. As well as many more customers transferring supplier because of trade sales, prompted by supplier failure.

Ofgem's impact assessment is based on a range of 1-4 supplier failures per year and in the years 2018 to 2021 the number of supplier failures has exceeded or been in this range. Additionally, we have seen no evidence to suggest that there will be no further supplier failures. Therefore, using 1-4 supplier failures per year in an impact assessment is an accurate, and evidently conservative, assumption. This is further evidence for the continuing need for prescriptive regulation to prevent mutualisation of costs.

Licence drafting

The current licence drafting would have the threshold proposal only apply to domestic direct debit customers – this is understandable given these customers are the primary holders of credit balances with their suppliers. However, this would allow for suppliers to circumvent the licence conditions by using alternate payment forms – for example a 'subscription model' would allow suppliers to take regular payments from customers through a continuous payment authority⁴.

It is difficult to draft licence conditions that will capture all potential payment types that may arise in the future. Furthermore, drafting the licence to capture all payment types in operation today would be disproportionate as some payment types, such as prepayment, can have credit amounts that are not mutualised on supplier failure.

Therefore, we propose that Ofgem publishes guidance alongside the statutory consultation that sets out any other payment types will be captured under the financial responsibility principle and that Ofgem will take swift enforcement action against those suppliers that attempt to circumvent these licence conditions.

We strongly support the inclusion of parent company guarantees (PCGs) within this proposal. PCGs are the most cost-effective means for a well-capitalised supplier to meet the threshold proposal.

Enforcement

We expect Ofgem to enforce any breach of the threshold proposal swiftly and rigorously. Ofgem should set out the consequences of a breach in its decision document pertaining to these policy proposals. Ofgem should be clear that any breach of the threshold proposal will result in an enforcement order preventing the relevant supplier from gaining any further customers until it is able to clearly demonstrate that surplus customer credit balances are protected.

³ Picking up the pieces – June 2019:

https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/SoLR%20report%20FINAL_v2.pdf

⁴ FCA: <https://www.fca.org.uk/news/news-stories/continuous-payment-authorities-it-your-right-cancel>

Ofgem's existing supplier licensing review requirements, namely milestone assessments, already provide Ofgem with the ability to prohibit a supplier gaining further customers. Therefore, a ban on new customers would be a proportionate response to non-compliance with the threshold proposal and keeping in line with other supplier licensing review protections

Protecting Renewables Obligation (RO)

We welcome Ofgem's consultation document stating that the issue of RO mutualisation will be consulted on. However, we are concerned there is no set date for this consultation, and this increases the chance of more supplier failures resulting in further RO costs being mutualised. RO costs make up the largest proportion of mutualised costs and it is vital that this risk is consulted on by the end of June and addressed as soon as possible.

Autorefund option

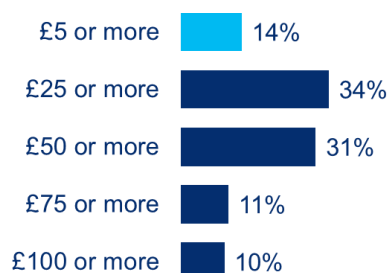
We understand and support the rationale of the autorefund proposal. However, as currently drafted it would prevent suppliers from acting in consumers' interests. We counter-propose that suppliers are permitted to retain a small amount of credit balance per customer, up to £75 net of unbilled consumption, and that this amount must be considered a surplus credit balance and protected under the threshold proposal.

In this section we set out our current policy on autorefunds, followed by a counterproposal that meets the objectives of the supplier licensing review and provides flexibility to both suppliers and customers.

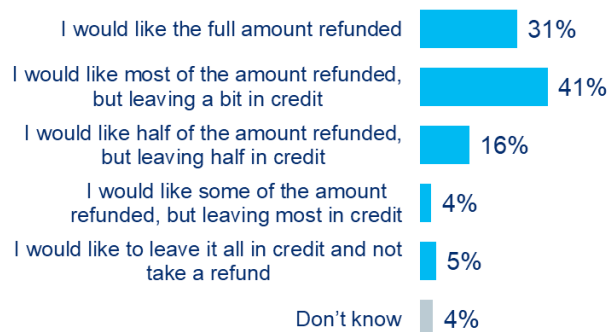
Our current autorefund process

We currently only refund customers if their credit balance has been calculated using an actual read and is more than £80, based on a £75 threshold and a de minimis refund amount of £5. We have arrived at £75 through customer research. Many of our customers have expressed a desire for their account to remain in credit as a 'safety cushion' in case of events such as harsh winters or price increases that require an increase to their regular direct debit (DD) payment – a DD increase is seen by many customers as an inconvenience that far outweighs the benefit of a one off refund.

We held in depth conversations with a sample of circa 600 customers to determine the ideal threshold for refunding customers:



The £5 is shaded light blue as that was our previous threshold before we increased it to £75. Based on this research, and the two sets of results set out above and below, we decided to set the threshold at £75 as at this amount most customers would prefer a refund. In addition to our standard refund process all customers can request a refund at any point in the year without needing to wait for the autorefund threshold to be met.



As may be seen from the results above most customers would prefer some credit to remain in their account instead of a full refund.

Should a customer's direct debit (DD) need to be increased – possibly due to an increase in their tariff or a forecast of a colder than usual winter – then refunding a customer's money followed by a DD increase will result in complaints from customers. Many customers would prefer that their supplier retains some credit surplus and keeps the monthly DD the same as it will make it easier for the customer to forecast monthly spending.

This is evidenced across our wider customer base by a greater propensity for customers to complain when they receive a refund followed by a direct debit (DD) increase, as opposed to the alternative of no refund and no change to a customer's DD – 1.7%⁵ versus 0.4%⁶ respectively.

Customers with estimated reads

We currently only process autorefunds for customers where we have a meter read in the last 120 days, whether that be a read we have obtained ourselves or one provided by the customer. This is because a customer's accurate credit position will be unclear until a meter read has been provided, and therefore the customer may not be due a refund despite their account balance suggesting otherwise.

We are aware of a significant minority of customers, over 350,000, who have not provided a meter read in the last two years and we have not been able to access their meter. This may be because the customer has not been able to arrange access, or a customer wilfully preventing a meter read for financial gain.

We understand the rationale behind why Ofgem would want to include customers who haven't provided meter reads as the autorefund proposal could easily be gamed by suppliers choosing not to take meter reads. However, a minority of customers could similarly game the process by withholding meter reads to ensure they are shown in credit and eligible for a refund. Those same customers would also, under Ofgem's current proposal, have an incentive to not have a smart meter installed to prevent remote meter reading.

For Centrica to change our processes to include customers without an actual meter read would require a change to the logic coded into our systems and may therefore take up to six months to implement.

⁵ 11,810 complaints from 712,692 customers affected.

⁶ 2,687 complaints from 637,466 customers affected

Centrica counterproposal

We propose that suppliers can set a reasonable threshold under which customers do not receive an autorefund at the end of the year, provided this is based on consumer research and is set at £75 or lower – with a de minimis payment threshold. However, to ensure there is no unfair advantage gained by suppliers using these monies as working capital the supplier would have to protect this amount under Ofgem's threshold proposal to protect surplus credit balances.

We further propose that customers without a recent actual meter read are excluded from the autorefund proposal. However, these customers credit positions will still be included under the threshold proposal and would need to be protected by the supplier. The lack of actual meter reads will naturally decrease in line with the smart meter rollout and should become minimal over time, and therefore we see no policy need to include customers without a meter read in the autorefund proposal.

The lack of actual meter reads will naturally decrease in line with the smart meter rollout and should become minimal over time, and therefore we see no policy need to include customers without a meter read in the autorefund proposal.

Our counterproposal to have the threshold and autorefund proposal working in tandem, and to separate their effective dates for implementation so that the threshold proposal is implemented as soon as possible, will deliver maximum flexibility for suppliers and their consumers, while swiftly meeting the objectives of Ofgem's supplier licensing review .

Ofgem's consultation recognises that: "We are aware that some consumers may prefer for their energy account to be in credit. However, we consider that the negative impact that in aggregate surplus credit balances can have on the market are such that all surplus credit balances should be refunded to customers". This concern would be addressed by our counterproposal, which would require customer credit balances to be protected if they are not auto refunded.

Appendix 2: Centrica response to Ofgem's consultation questions

In this appendix we set out our response to the specific questions posed by Ofgem in its consultation.

Question 1: Do you agree with our objectives set out in chapter 1?

We agree with objectives in chapter 1. We consider that they would be best met by implementing the 100% requirement to protect all credit balances and Government policy costs.

We strongly support Ofgem's fourth objective to "ensure that regulatory costs do not unduly hamper good practice, market entry, innovation, and growth". This may be achieved by ensuring Ofgem's remedies where possible, are targeted at those suppliers likely to fail and mutualise costs, in line with Ofgem's recent guidance on the financial responsibility principle⁷.

Ofgem should work with the supplier community to ensure that the reporting requirements for the threshold proposal strike the balance of providing enough information for Ofgem to ensure compliance, while not placing an unduly onerous reporting requirement on suppliers.

Question 2: Do you agree that our proposals meet our objectives as set out in chapter 1? Please provide views on both our autorefund and threshold proposals and any alternatives you consider that meet our objectives that Ofgem should assess.

The objectives would only be fully met by the implementation of the requirement to protect 100% of credit balances and Government policy costs should a supplier fail.

We consider Ofgem's threshold proposal partly meets these objectives as it will decrease the likelihood of mutualisation of costs and will require suppliers to take responsibility for a portion of these costs. It will part address the market failure we have seen where suppliers fail and all other suppliers, and ultimately consumers, must pick up these costs.

By ensuring suppliers cannot use customers' money as free, unsecured working capital the threshold proposal will encourage responsible business practices in retail energy.

Once in place, the threshold proposal will also allow responsible suppliers to enter the market, innovate, and grow. The threshold proposal will only act as a necessary barrier against the entry and growth of irresponsible suppliers.

As we have set out in Appendix 1 the lack of a financial threshold in the autorefund proposal would not be in the interests of consumers so the autorefund proposal as currently drafted would unduly hamper good practice in contravention of objective 4. However, should a refund threshold be introduced with a requirement to protect this amount via the threshold proposal, then the autorefund proposal would meet the supplier licensing review's objectives.

Question 3: Do you agree that our draft Standard Licence Conditions reflect our policy intent?

In our answer we have focussed on whether the draft licence conditions meet the intent of Ofgem's policy proposals, rather than debating the merits of Ofgem's proposals (see Appendix 1 for our views on the policy proposals):

- 27.15A – this condition as drafted would apply to all credit customers, not just those on fixed regular payments who are the focus of the rest of the draft conditions. We propose that the drafting is amended to explicitly refer to customers paying by fixed regular payments.

⁷ Supply Licensing Review: Final Guidance on the Financial Responsibility Principle – March 2021: https://www.ofgem.gov.uk/system/files/docs/2021/03/frp_guidance_decision_letter_final_0.pdf

- 27.15A(a) – SoLR is not a defined term so the drafting should read Supplier of Last Resort.
- 27.15B.1(b) – we presume that the word “bill” at the end of this sub-clause should read as “direct debit” or “fixed regular payment” as customers on a fixed direct debit are not always billed regularly, though they do have monthly direct debit payments.
- 27.15B.3 – suggest changing consumption to charges. Consumption would not include all the sums the customer owes the supplier as it would not include standing charge, any debt repayments, or Green Deal payments. Therefore, consumption may provide an inaccurate view of a customer’s credit position.
- 27.15B.3 – the definition of P and C reference a supply start date and this should be removed. Direct debit payments do not necessarily start from supply start date. A customer may join a supplier on a deemed contract and then move to a direct debit at a later date. Therefore, both definitions should instead refer to the ‘relevant Payment Year’ instead of ‘a year starting from the Supply Start Date’.
- 27.15B4 – this has been incorrectly labelled as 27.15B3
- 27.15B4 – We recommend that the SLC clarifies how SLCs 27.17 & 27.18 would apply where a supply of last resort direction has been issued which relates to the customer.
- Definition of Credit - The proposed drafting means that there will be two separate definitions of “Credit” within SLC 27.15. This has the potential to cause confusion and we suggest that it would be better to re-name one of the definitions.

We welcome Ofgem sharing licence conditions earlier in the consultation process, and before the statutory consultation, as it allows for more productive conversations with stakeholders and more time to identify inaccuracies and the potential for misinterpretation of licence conditions.

Question 4: Do you agree that autorefund of credit balances above £0 at the end of 12 months should not be tied to receiving a meter reading from the customer?

We disagree with disassociating the autorefund proposal from the requirement for a meter reading, nor do we agree with the £0 threshold, as set out in Appendix 1 of our response.

We understand the rationale behind why Ofgem would want to include customers who haven’t provided meter reads as the autorefund proposal could easily be gamed by suppliers choosing not to take meter reads. However, a minority of customers could similarly game the process by withholding meter reads to ensure they are shown in credit and eligible for a refund. The lack of actual meter reads will naturally decrease in line with the smart meter rollout and should become minimal over time, and therefore we see no policy need to include customers without a meter read in the autorefund proposal.

For Centrica to change our processes to include customers without an actual meter read would require a change to the logic coded into our systems and may therefore take up to six months to implement. Implementation would be quicker, circa three months, if the autorefund proposal only included customers that had provided an actual meter read.

Question 5: Do you agree that suppliers operating a payment in advance business model should face the cost of the risk they pose to the market?

We agree that suppliers that operate a payment in advance business model should face the cost of the risk they pose to the market.

Payment in advance can be a viable business model, provided the supplier is able to demonstrate it is well capitalised and that there isn’t an increased risk of mutualised costs should they fail.

We support a threshold proposal placing requirements on payment in advance models commensurate to the level of risk they pose, while still allowing such business models to persist in the energy retail market.

Question 6: Do you agree with the obligation and compliance approach for thresholds as outlined?

Notwithstanding our support for the 100% requirement, we agree with the principle of a relative threshold as it will ensure a level playing field for competition between suppliers, irrespective of customer numbers. Furthermore, allowing no exceptions for payment in advance is also a proposal we support.

It is unclear if an allowance is required to account for contract start date. Centrica does not alter a customer's direct debit payment plan based on what time of year the contract commences, and it is unclear if Ofgem has any evidence to suggest other suppliers alter DD payments to account for the month of contract start.

Allowances for contract start date should not be made unless there is clear evidence that suppliers provide different direct debit plans based on supply start date. If they do not, then no allowance should be given as an allowance may enable suppliers to build up credit that is at risk of mutualisation should they fail.

We agree that compliance with the threshold proposal should be risk based as some suppliers, particularly those that are not well-capitalised, present a greater risk of failure and mutualisation of costs. Furthermore, we agree with Ofgem that the tolerance should "not allow suppliers an "out" to over-collect credit balances".

We expect Ofgem to enforce any breach of the threshold proposal swiftly and rigorously. Ofgem should set out the consequences of a breach in its decision document pertaining to these policy proposals. Ofgem should be clear that any breach of the threshold proposal will result in an enforcement order preventing the relevant supplier from gaining any further customers until it is able to clearly demonstrate that surplus customer credit balances are protected.

Question 7: Do you agree that there should be tolerances around the threshold and how do you consider these should be set?

We do not see a need for a tolerance for the threshold proposal.

While there will be a natural variability of a supplier's customer credit balances throughout the year, this variability is just as likely to require a supplier to increase its protection of credit balances as it is to decrease the protection required. Therefore, over the course of a year this variability will smooth, out and thus there is no need for a tolerance.

We understand the need for adjustments to accommodate any peaks in customers coming on supply in a particular month and for the model to reflect that suppliers with a larger proportion of gas customers are likely to have a larger peak given gas consumption is more seasonal than electricity.

Question 8: For your fixed direct debit customers what is the average percentage difference between estimated annual bills and actual annual bills for those accounts that ended with a positive credit balance?

Across 2019, 2020 and 2021 to date 20% of our customers were on estimated bills, versus 80% on actuals.

Question 9: Please provide your view on the credit balance threshold model published alongside this consultation. Do you agree:

a. With the methodology we have used to calculate surplus credit balances in our draft threshold model?

b. That our threshold needs to reflect that consumers who start at different points of the year have different credit balance requirements?

c. That our model methodology accounts for the impact of contract start date on our threshold?

No model is likely to precisely calculate surplus credit balances and Ofgem's model appears to adequately reflect the likely changes in customer credit balances a supplier is likely to see throughout the year.

We recognise the need for adjustments to accommodate any peaks in customers coming on supply in particular month and for the model to reflect that suppliers with a larger proportion of gas customers are likely to have a larger peak given gas consumption is more seasonal than electricity.

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

We agree with Ofgem that mutualisation of credit balances is an issue specific to domestic consumers, as only domestic consumer credit balances are mutualised upon supplier failure. Therefore, we agree that these measures should only apply to domestic consumers.

Question 11: Do you agree with the proposed implementation timings?

The threshold proposal is the most important of Ofgem's two policy proposals and should be implemented as soon as possible to prevent further mutualisation of cost from future supplier failures.

The three months proposed by Ofgem is more than enough time for suppliers to put the relevant guarantees in place to protect surplus credit balances or to refund credit balances where the supplier is unable to access guarantees.

The autorefund proposal will take longer to implement if it requires suppliers to process autorefunds for customers that have not provided a meter read. We do not currently provide autorefunds to these customers and assume other suppliers do not either.

Therefore, the current autorefund process proposed by Ofgem may take up to six months to implement. If the requirement to provide autorefunds to customers without an actual meter read was removed, then the three-month implementation proposed will be sufficient.

If Ofgem agrees with our counter proposal to also allow suppliers to determine an autorefund threshold based on customer feedback, then there will be no need for Centrica to implement a change.

We propose that Ofgem decouple the implementation of the two proposals and introduce the threshold proposal first as it will deliver the most value, quickly and effectively.

The autorefund proposal could then be implemented in the time it would take suppliers to alter their systems to process the new autorefund requirement.

Question 12: Do you agree with our assessment of the costs and benefits of our proposals as set out in chapter 5 and appendix 1?

We do not agree that the threshold and autorefund options will address the market distortions caused by supplier failures. Only the 100% requirement would fully address the market distortions as set out in our cover letter.

The threshold option will partly address the market distortions caused by supplier failures.

We agree with Ofgem that suppliers should bear an appropriate share of the cost of the mutualisation risk they pose to the market.

However, there are elements of Ofgem's costs and benefits that we disagree with:

- We do not agree with Ofgem that the requirement to protect 50% of credit balances and policy costs would be disproportionate. As we have set out in our covering letter, we consider that the hard to monetise benefits would make a positive business case for the 100% requirement and therefore the 50% requirement as well.
- While we agree with Ofgem that suppliers that cannot readily access credit may raise their prices due to the threshold policy, we do not consider this a cost to customers as well informed customers and a competitive market will ensure customers switch to a supplier that is more well-capitalised.
- We do not agree that money returned to customers should be considered a benefit. It is only a temporary refund given customers had set this money aside to pay for future energy bills, so its value would only be the amount of interest the customer would gain from having the money in their account. Our findings in Appendix 1 demonstrate that many customers would prefer to have credit on their energy account and so for these customers this benefit would be an inconvenience and therefore perceived as a cost.
- We agree with Ofgem that the 50% and 100% requirements would restrict market entry. However, it would only restrict entry for those underfunded suppliers who are likely to fail and mutualise costs. If a 50% or 100% requirement had been in place for the last five years many of the now failed suppliers would not have entered the market and consequently there would have been fewer supplier failure and less mutualisation of costs, to the benefit of all consumers.

Question 13: What implementation costs do you think suppliers will incur should we progress both our autorefund and thresholds proposals? Please detail both the category of cost as well as your estimation of cost figures.

Implementing the threshold proposal would only incur the minimal administrative costs of putting a parent company guarantee (PCG) in place.

Implementing the autorefund proposal would depend on whether Ofgem intends to include customers without an actual meter read as proposed:

- [Costs redacted]

Question 14: Do you agree:

a. We should account for cost of suppliers using parent company guarantees in our assessment of working capital

b. With our approach to applying the cost of third part guarantees to surplus credit balances

We agree that Ofgem should account for the cost of suppliers using parent company guarantees (PCGs). Furthermore, we agree with Ofgem's estimated cost of between 0% and 1.75% of the amount guaranteed. While only a handful of suppliers will be able to access PCGs, these suppliers have the largest market share and therefore most customer credit balances will likely be protected by PCGs.

Incorporating PCGs into Ofgem's analysis will make a stronger case for prescription including both the threshold proposal and our preferred 100% requirement.