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

Dear Melissa,

Letter on ending temporary Supplier of Last Resort (SoLR) levy claim process

We have welcomed the open conversations we have had with Ofgem through the SoLR bids, levy claims and related consultations. Our response to this open letter is in keeping with that spirit of co-operation and in summary our views on the two proposals are:

- Proposal 1: We do not agree to the ending of the temporary multiple claims process and propose it remains an option, as it may be more suitable in future SoLR claims.
- Proposal 2: We strongly support the need for an internal audit requirement for Last Resort Supply Payment (LRSP) claims. All our claims to date have been through our own internal audit team and all other suppliers should be held to the same standard.

Further details on our views are set out in the relevant sections of this letter.

Wider market context

There have been over 30 energy supplier failures across 2021 and 2022 that are estimated to have cost bill-payers over £2.7bn¹. We consider that the energy sector, Ofgem and Government agree that we do not wish to see such circumstances repeated.

Most of the £2.7bn related to the wholesale commodity costs that suppliers incurred. The default tariff cap (DTC) prevented suppliers passing through these wholesale costs, beyond those allowed for under the cap, to the customers gained through the SoLR process. Therefore, a significant proportion of wholesale commodity costs incurred by suppliers, for acting as a SoLR, were mutualised across all customers – as part of the estimated SoLR costs of £94 per household². While we are supportive of the DTC, we also recognise that its existence contributed to the significant mutualisation of costs.

¹ Public Accounts Committee report: <https://committees.parliament.uk/committee/127/public-accounts-committee/news/174285/pac-ofgem-failures-come-at-considerable-cost-to-energy-billpayers>

² ibid

A future sudden increase in commodity costs could result in market conditions like those that resulted in the failure of multiple suppliers in 2021 and 2022. If at that time, suppliers are still operating under the DTC then they will not be able to pass wholesale costs in full through to suppliers acquired through the SoLR process. This inability to pass through these wholesale costs may result in a SoLR incurring significant costs that it will need to recover quickly to avoid a significant working capital risk.

Proposal 1: Ending the Temporary Multiple Claims Process

In the above section 'wider market context' we have set out a plausible scenario under which a two stage SoLR claims process may be required, and therefore we oppose Ofgem's proposal to remove the multiple claims process.

Future market conditions are inherently uncertain and a return to those conditions seen in 2021 and 2022 - which resulted in multiple supplier failures - cannot be ruled out as a possibility. Therefore, there is merit in retaining a multiple claims process – in case it is needed.

We agree with Ofgem that new regulations – namely the market stabilisation charge (MSC), the ban on acquisition tariffs (BAT) and the financial responsibility principle – plus a quarterly adjustment to the price cap have decreased the risk of large SoLR levy claims requiring a multiple stage levy claim. Though Ofgem has recently published an open letter³ stating that it is considering the long-term future of the MSC and BAT, and therefore these mitigating factors may not address risks of large SoLR levy claims in the long term.

We do not consider the risk of large SoLR levy claims to have been eliminated entirely and therefore cannot see a reason for ending the multiple claims process as we are unclear what regulatory risk or uncertainty Ofgem would achieve by ending it.

As an alternative we propose that Ofgem introduce a question in the standard information request that is sent to all prospective SoLRs asking whether the supplier intends to make a single or multiple claims, and the working capital costs a supplier will claim for under either a single or multiple claim – i.e., what percentage working capital will be applied to the total claim. Ofgem would then use the answer to this question as one of the criteria in judging which SoLR to appoint.

Proposal 2: Internal Audit Requirement for LRSP Claims

We strongly support a need for any SoLR levy claim to have been through a rigorous internal audit. All our past claims have been through a robust internal audit process, and we will apply this level of rigour to any future claims.

Furthermore, we encourage Ofgem to not appoint a supplier as a SoLR unless it can prove that it has a robust internal audit function in place.

³ Open letter on changes in the energy supply market and Ofgem's approach to regulation on 4 July: <https://www.ofgem.gov.uk/publications/changes-energy-supply-market-and-ofgems-approach-regulation>

If you would like to discuss our response, please get in touch on tabish.khan@centrica.com.

Yours sincerely,

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