



Making a positive difference
for energy consumers

All future Suppliers of Last Resort
and other relevant stakeholders

Email: solrlevyteam@ofgem.gov.uk

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Decision on ending the temporary Last Resort Supply Payment process

Dear colleagues,

Ofgem¹ introduced a temporary multi-claim Last Resort Supply Payment (LRSP) process in late 2021 in response to the energy crisis. LRSP claims over the past two years have been of greater magnitude than those seen pre-crisis and the temporary multi-claim process worked well at managing the increased claim amounts.

On 25 May 2023 we published an open letter² on proposals to end the temporary multiple-claim Last Resort Supply Payment (LRSP) process and the requirement for an internal audit to be submitted with all new LRSP claims. Today we are publishing our decision regarding these proposals.

Having consulted and considered the views of respondents, we have decided that we will maintain the temporary multiple-claim process until at least after winter 2023/24. The reasons for this are set out below. We do still expect that we will end the temporary multi-claim LRSP process in due course. We will review the policy and market conditions in 2024 and consult again on whether the time is right to bring the multi-claim LRSP process to an end.

This decision will be of relevance to and affect those energy suppliers appointed as the Supplier of Last Resort (SoLR) for customers of any future failed energy supplier. Any SoLR appointed will need to consider this decision if they have indicated their intention to submit an LRSP claim.

¹ In this letter the terms "we", "our", and "Ofgem" are used interchangeably and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² [Letter on ending temporary SoLR levy claim process | Ofgem](#)

Overview of responses

We received five responses to our letter, none of which were confidential.³ Four responses came from energy suppliers with the other from a network operator. For our first proposal, to end the temporary multi-claim process, two respondents gave qualified support, while two respondents opposed. The fifth respondent did not comment on this proposal. For our second proposal on the requirement for an internal audit, three respondents supported the proposal with one opposed. The other respondent did not comment on this proposal. Several comments or suggestions were made by all the respondents.

We have taken account of all responses received and have explained our decision in more detail below.

Ending the temporary multiple-claim LRSP process

Respondents to our letter were split on this proposal with two agreeing with our assessment that market conditions have stabilised. However, respondents noted that prices and volatility remained above historic levels. Respondents welcomed that we remain open to potential re-introduction of the multi-claim process, should it be deemed necessary. They considered it important that we remain open to future phased LRSP claims where an appointed SoLR is exposed to unexpected circumstances creating significant upfront costs. One respondent suggested that the multi-claim process should be allowed for SoLRs where the failed supplier is over a certain size. It was also suggested that a question is asked of potential SoLRs at the request for information (RFI) stage prior to appointment to gather views on what would be the most efficient claims process with answers to this question forming part of the decision in appointing a SoLR.

Respondents who disagreed with the proposals asked us to reconsider as to whether the market is sufficiently stable. They noted that the risk for large LRSP claims still remains and has not been eliminated entirely. Further comments highlighted that a sudden increase in commodity costs could result in market conditions like those which resulted in the failures seen in 2021.

One response received from a gas network operator wanted us to ensure that LRSP assessments were completed and received by Gas Distribution Networks (GDNs) by 31 October. This would help avoid the need for GDNs to continue, on an ongoing

³ These responses are published on our website.

basis, to submit further iterations of the Price Control Financial Models following the Annual Iteration Process, as they have had to do in 2021 and 2022.

Ofgem response

We remain of the view that market conditions are much improved compared with when the temporary process was introduced, and while we accept that there has been some recent increased volatility, we indicated that this might be the case in our open letter. On the likelihood of sudden price increases and the potential size of them, we are of the view that this is less likely than has been seen over the past two years. While we cannot eliminate entirely the possibility of future large LRSP claims, the risk of this is much reduced. In addition, as we highlighted in our letter, we have introduced several measures⁴ since autumn 2021 that have helped to reduce the risk of future SoLRs submitting claims of the magnitudes seen in 2021 and 2022. We still consider that there are downsides to the multi-claim process, such as the risk of overpayments that need to be refunded to consumers, and the short-term impact on energy bills.

Despite this, we have decided at this point to retain the temporary multi-claim LRSP process until after winter 2023/24. On reflection, we want to ensure that our view of market stability is seen over a longer period before we implement any changes. This will ensure that we are best prepared in the event of adverse market conditions this forthcoming winter. Additionally, other measures⁵ we have introduced and are introducing to promote stability in the retail market will be embedded more fully after winter 2023/24.

As we are not ending the temporary multi-claim LRSP process at this stage, any SoLRs we appoint would submit an LRSP claim using the temporary multi-claim process. Therefore, there is no requirement for us to include a question for potential SoLRs at RFI stage, as suggested by a respondent, to be considered as part of the decision-making process. When we review ending the temporary multi-claim LRSP process after winter 2023/24 we will consider the potential for this to be included as a question on the RFI.

We want to work constructively with all stakeholders regarding LRSP claims and have appreciated willingness by GDNs to extend the 31 October deadline for receipt of LRSP claims in recent years. Our review after winter 2023/24 will consider the request to revert to the 31 October deadline.

⁴ Increased frequency of Price cap; establishment of enhanced Financial Responsibility Principle; extensions on Market Stabilisation Charge and ban on Acquisition-only Tariffs.

⁵ [Decision on Strengthening Financial Resilience | Ofgem](#)

Requirement for an audit

The majority of respondents agreed with our proposal for future LRSP claims to be submitted with an internal audit. One respondent disagreed with the proposal suggesting that our original process of carrying out checks on LRSPs would be sufficient and that it is possible that an internal audit is more costly than rectifying issues highlighted by the audit.

One respondent had doubts that the standard of internal audit which we proposed, ISRS 4400, would deliver what we intend. It was suggested that it may be more appropriate to put the onus onto suppliers to set out an appropriate approach for the internal audit.

Ofgem response

We are of the view that having an internal audit conducted by a team not connected to the claim should be considered an essential element of an LRSP claim. LRSP claims ultimately feed through to consumer bills; therefore, we believe that SoLRs submitting LRSP claims should provide an audit with due rigor of their submission where we expect all cost categories adhere to our criteria. The audit plays a key role in assuring us as to the quality of the evidence provided, enabling us to carry out a robust assessment of all claims. While an external audit would provide us with even more assurance of the claim, we are of the view that this would only be necessary should we have serious concerns about an LRSP claim.

We note that our decision⁶ issued for SoLRs submitting true up claims stated that the audit standard was to be at least ISRS 4400. One supplier in autumn 2021 went beyond this standard and in discussion with us, this was accepted. We do not want to require suppliers to change their internal procedures regarding audit where it is not necessary. Therefore, as in line with previous audit submissions regarding LRSPs, if a SoLR wishes to submit an audit at a standard higher than ISRS 4400 with an accompanying statement to this effect then we would accept this. The ISRS 4400 standard is the minimum standard we would expect from SoLRs making an LRSP claim.

Deciding not to end the multi-claim process, at this stage, means that any appointed SoLRs who have indicated that they intend to submit an LRSP claim will be required to enter into a True-up agreement. As part of that agreement SoLRs will be required to submit an internal audit. This is consistent with our policy decision from September 2022⁷.

⁶ [Last resort levy claims true-up process consultation | Ofgem](#)

⁷ [Decision on last resort levy claims true-up process | Ofgem](#)

Next steps

Existing LRSP claims where a SoLR has a True-up agreement with Ofgem will continue to be processed under the temporary multi-claim true-up process until completion. New LRSP claimants will enter into a True-up agreement with us and be eligible to make an initial claim, followed later by a True-up.

We are of the view that there are benefits to ending the temporary multi-claim LRSP process to reduce risks of overpayments and lessen short-term impacts of levy claims on energy bills. Therefore, we will continue to monitor market conditions and revisit this decision after winter 2023/24.

Yours sincerely,

Melissa Giordano

Deputy Director, Retail Systems and Processes