

Erratum Notice – Electricity Supply Licence Condition 4B, Gas Supply Licence Condition 4B, Decision on introducing a minimum capital requirement and ringfencing customer credit balances by direction, Guidance on the operational capability and financial responsibility principles, and Electricity Supply Licence Condition 1.

On 26 July 2023¹ the Authority² issued a decision to modify Electricity Supply Licence condition SLC 4B and Gas Supply Licence SLC 4B. 'Decision on introducing a minimum capital requirement and Ringfencing customer credit balances by direction.'

In addition, on 11 February 2019 the Authority issued a decision to modify SLC 1. 'Final decision: Domestic supplier-customer communications rulebook reforms.'

We have subsequently identified some minor errors in the Schedule to the modification decision as follows:

- Four typographical errors in SLC 4B (Electricity Supply Licence and Gas Supply Licence).
- One correction to the description of Domestic Customer Credit Balances SLC 4B.8 (d) (Electricity Supply Licence and Gas Supply Licence).
- One correction to the definition of Trigger Point SLC 4B (Electricity Supply Licence and Gas Supply Licence).
- One presentational amendment in SLC 4B.23 (i). (Electricity Supply Licence and Gas Supply Licence).
- A typographical error in Guidance on the operational capability and financial responsibility principles.
- One erroneous reference to reporting requirements in Guidance on the operational capability and financial responsibility principles paragraph 4.2.
- Two omissions in Guidance on the operational capability and financial responsibility principles (paragraphs 4.3 and 4.6) relating to the number of days within which a representation may be made.
- An erroneous reference to reporting requirements in Decision on introducing a minimum capital requirement and ringfencing customer credit balances by direction paragraph 4.35.

¹ <https://www.ofgem.gov.uk/publications/decision-introducing-minimum-capital-requirement-and-ringfencing-customer-credit-balances-direction>

² The terms 'we', and 'The Authority' refer to the Gas and Electricity Markets Authority.

- One omission in Decision on introducing a minimum capital requirement and ringfencing customer credit balances by direction (paragraph 4.30) relating to the number of days within which a representation may be made.
- One omission the definition for Relevant Communications Hub in SLC 1.

The annex to this letter sets out these errors which we will now amend in the Electricity Supply Licence and the Gas Supply Licence

If you have any questions regarding this letter, please contact RetailFinancialResilience@ofgem.gov.uk.



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Rohan Churm, Interim Director – Financial Resilience and Controls
Duly authorised on behalf of the Gas and Electricity Markets Authority
20 September 2023

Annex 1

Deleted text is ~~struck through~~. New text is underlined.

Condition 4B

4B.8 (d) the licensee's monthly average Cash is less than 20% of the value of its Gross Domestic Customer Credit Balances (the "Cash Coverage Trigger") ~~from Fixed Direct Debit Customers Net of Unbilled~~

4B.20 (ii) The Authority will consider the Proposed Capitalisation ~~p~~Plan and confirm in writing to the licensee whether it is has been approved or rejected (where approved, this is the "Approved Capitalisation Plan").

4B.23 (i) the licensee does not have Cash equal to or greater than ~~20% of Domestic Customer Credit Balances (the "Cash Coverage Trigger")~~; or

Definition of Alternative Sources of Capital: Unconditional, unsecured, quantifiable, legally-binding, guarantee from a parent or group company to the licensee to discharge liabilities of the licensee, which guarantee satisfies the following conditions: (i) the parent/ group company providing such guarantee maintains a minimum long-term credit rating of at least two of the following: BBB- by Standard and Poor's, BBB- by Fitch or at least Baa3 by Moody's; (ii) the guarantee is legally binding for at least the next 12 months, and is not subject to any conditions to drawing or payment, and (iii) the parent/ group company has no right to cancel such guarantee, (iv) any counter indemnity or other obligation by the licensee to parent/ group company in relation to payments by the parent/ group company under such guarantee will comply with the conditions referred to in "unsecured loans" above.

Definition of Domestic Customer Credit Balance: Means, during any period, the aggregate amount by which payments to be made by Fixed Direct Debit Domestic Customers under or in accordance with the relevant Domestic Supply Contracts ~~exceeds~~ the total amount of Charges which are to become payable by Fixed Direct Debit Domestic Customers under those Domestic Supply Contracts during such period minus any amount refunded to the Domestic Customer during that period.

Definition of Protected Amount: Means the ~~G~~Gross ~~C~~Credit ~~B~~Balance minus the ~~U~~Un**u**nbilled ~~C~~Consumption multiplied by the Adjustment Percentage.

Definition of Trigger Point: Are indicators linked to supplier financial resilience in the ~~three~~ four situations described in paragraphs a) to d) of standard condition 4B.8.

Decision on introducing a minimum capital requirement and ringfencing customer credit balances by direction

Paragraph 4.30: We are proceeding with Consumer Interest representation as we proposed. When issued with a notice of our intent to direct CCB ringfencing, the licensee will have the opportunity to submit a representation where they consider that ringfencing or the proposed Adjustment Percentage would not be in the Consumer Interest. The licensee will have at least seven working days after receiving notice of our intent to issue a direction to submit their representations. In defining Consumer Interest, we are aligning with the wider Ofgem Consumer Interest Framework details in Figure 5 below.

Paragraph 4.35: We are proceeding with the frequency of calculation as we proposed and therefore will continue to proceed with a monthly calculation of the percentage of gross credit balance of net unbilled consumption owed to their fixed Direct Debit customers. We also plan to proceed with a reporting cycle which will reflect the expected fluctuations in credit balances across the year and therefore reduce the risk of under or over protection. ~~We expect the licensee to record daily cash levels and provide an average across the month, as well as providing a month end balance. These data points will be required as part of the monthly RFI reporting.~~

Guidance on the Operational Capability and Financial responsibility Principles

Paragraph 1.1 (final bullet point): They Protect Domestic Customer Credit Balances (CCBs) in accordance with SLC 4D, when directed.

Paragraph 4.2 (a): a) the licensee does not have Cash (in the bank) equal to or greater than 20% of the gross Domestic Customer Credit Balances net of unbilled consumption owed to Fixed Direct Debit customers ~~(based on the average across the month).~~

Paragraph 4.3: If a licensee is below of any CCB threshold triggers detailed in paragraph 4.2, we will have the power to direct ringfencing. However, we do not expect it to be in the consumer interest for us to make this direction in all cases. Prior to directing a licensee to ringfence CCBs we will issue a notice of intent to direct. The licensee will have a period of no less than seven working days from the date of the notice during which it can make a representation to Ofgem. The time permitted for representation will be stated in the notice along with details on how to make the representation. Ofgem will review the representation, contacting the licensee if additional information if required. Following a review of the representation Ofgem will decide whether to issue a direction.

Paragraph 4.6: Step 3 - Once we have issued a notice of our intent to direct ringfencing, the licensee will have a period of up to seven working days to submit a representation. We will consider any representations from the licensee where they consider that ringfencing or the Adjustment Percentage would not be in the Consumer Interest.

Condition 1

Definition of Relevant Communications Hub: means a Communications Hub which on the date it is installed at the Domestic Premises complies with a Version of the CH Technical Specification which is within its Installation Validity Period.