

David Hall
Deputy Director of Financial Resilience and Controls
10 South Colonnade
Canary Wharf
London
E14 4PU

5th April 2024

Dear David,

Re: SoLR Levy Offset Consultation.

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc, collectively known as “NGED”, in response to Ofgem’s consultation on the SoLR Levy Offset.

Our responses to the questions posed within the consultation are set out below.

Question 1: Do you agree with our problem statement?

NGED Response:

Although we support the principle, overall we disagree with the proposal. One of the main reasons is the lack of benefit to customers that has been demonstrated in the consultation document. In addition, as unsecured creditors we would be ranked very low in the insolvency proceedings, again meaning there will be very little/no benefit to customers. The proposal also raises concerns from a practical perspective, leading to increased complexity. In addition the process outlined in the consultation would start to impose supplier issues on DNOs. Networks would be carrying an unknown amount of risk and would be subject to costs which are fundamentally unrelated to our core business activities.

Question 2: What are your overall views on whether the proposal would deliver on the aims of the SoLR levy Offset?

NGED Response:

Whilst we support the underlying ambition of trying to benefit customers by means of reduced costs and lower network charges, we believe the proposed mechanism used to achieve this could be different to ensure the aim is achieved. The consultation is not evidenced based, thus making it difficult to comment without having any information on residual values or potential financial impact. Further work should be conducted to assess the impact of implementing the proposal (as it currently stands) retrospectively.

Question 3: What are your views on the proposed option of network companies being creditor, as opposed to other alternatives.

NGED Response:

We do not believe this should lie with DNOs as we are not best positioned to undertake the role of creditor. Credit expertise sits outside the scope of work of a distribution company. Significant concerns we have include greater administrative burden, increased inefficiencies and additional risk. It would be highly inefficient for 14 electricity distribution licensees and 12 gas distribution licensees to each make claims when a single supplier enters administration. Furthermore, we do not believe having an extra licence condition is beneficial as it would put an extra obligation on DNOs with very little demonstrable benefit.

Question 4: What are your views on the creditors ranking in the insolvency waterfall as unsecured creditors and do you think another classification would be more appropriate?

NGED Response:

As unsecured creditors, we would be ranked very low in the insolvency waterfall which ultimately limits any potential benefit to customers. This links back to the practical implications of implementing this proposal and casts doubt on any material benefit.

Question 5: What are your views on the creditor claim being contingent on a valid claim being made by a SoLR for a LRSP? Do you think that the creditor claim could be formulated or calculated in another way?

NGED Response:

The purpose of the proposal is to offset the SoLR and so it is expected that a valid claim be made by the SOLR for a creditor claim to be started.

Question 6: What are your views on the deed as it is currently drafted?

NGED Response:

We do not support networks holding the deed and instead believe the deed should be between the SoLR and other suppliers as it would make the overall process less complex and removes reliance on networks. Specifically regarding the deed itself, another concern is the consultation flags that the deed will survive the revocation of the supplier's licence, however, if a supplier ceases trading and doesn't exist as a company it doesn't seem possible for the deed to remain valid.

Question 7: What are your views on the proposed license changes for suppliers and networks? Please identify any factors relating to the drafting of license changes that we should consider at this stage.

NGED Response:

We do not believe it is necessary to introduce a new licence condition for this as the obligation would bring no benefit to networks or their customers. The proposal would involve networks

taking on new activities and responsibilities including lodging proof of debt and further administrative tasks.

Question 8: Have we identified the key impacts, risks and benefits of the SoLR Levy Offset, and are there any impacts we should give further consideration to? Do you think that overall this would be of benefit to consumers?

NGED Response:

The higher administrative burden requires further consideration as one claim could be a yearlong process. There is also a timing issue. Ofgem would have to reinstate the multi claim process so we would have to know the amount we would claim in a timely manner so the administrators would be able to include us.

Finally, we are uncertain about the overall benefit this would bring to consumers, if any, which is heightened by the lack of evidence provided in the consultation. A more informed judgement could be made if the potential benefit to consumers was demonstrated/quantified through an impact assessment.

Should you have any queries in relation to our response, please do not hesitate to contact me.

Yours sincerely

Rebecca Nock
Financial Modelling Analyst
National Grid Electricity Distribution