



By email only

Barry Coughlan
Retail Market Policy
Ofgem
9 Millbank
London
SW1P 3GE

27 May 2014

Dear Barry,

Open letter consultation on the modification of relevant licence conditions to enable the delivery of the Government Electricity Rebate

Thank you for the opportunity to comment on the possible approach by Ofgem in implementing the process for the Government Electricity Rebate (GER). For ease of reference we have followed the headings used in your letter.

Background and proposal

As noted, the Department of Energy and Climate Change (DECC) has yet to publish its consultation on the process itself. As such, while it is helpful for Ofgem to provide an initial view on amending suppliers' licences, what those amendments might look like and seeking suppliers' views on the changes, it's a little difficult to provide anymore than an outline response until we see the process in detail.

Regarding the planned consultation in June – the timing of events is extremely tight. It is unclear whether DECC will have issued both its consultation on the rebate and its response, prior to Ofgem issuing its statutory consultation. If this has not yet been finalised, how will Ofgem be able to issue an SLC to implement the proposed policy intent.

As you know, suppliers have met DECC and discussed how the rebate process might work. We have asked to meet again once it publishes its consultation document.

You make the comment that should the approach taken to fund rebates of this kind through general taxation continue after 2015, an enduring solution would be more acceptable than using licence conditions. While this is a matter for government, it would seem sensible that if a relevant obligation (in this case the Energy Companies Obligation) was reduced, this is reflected in lower prices; in which case there would be no need for a rebate.

Provisions of the rebate

You propose that all domestic electricity customers should potentially benefit from the GER. We agree with Ofgem's approach that this should be by reference to the definition of Domestic Customer set out in SLC 1 of the electricity supply licence. As recognised, while this would exclude certain consumers, as they do not contract directly with suppliers for their electricity. As a matter of policy it would seem unusual for rebates to be given when there is no legal relationship between supplier and consumer, as well as the cost of establishing who they are likely to be excessive.

RWE npower
Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwenpower.com

Registered office:
RWE Npower Group plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 8241182

Related to this, however, are properties for which a contract to supply exists, but which is void or vacant, or where the supply has been de-energised. Would a supplier be expected to pay a rebate in these circumstances? Particularly, as it may have no details of whom to pay any rebate to or where it is not billing these customers.

Turning now to the underlying tenets of the SLC with regards to suppliers providing the rebate.

We agree that all licensed suppliers which supply domestic customers should be required to comply with any direction. We agree that the SLC should cap the GER at £12 year. It should be explicit in referencing and hence applying only to the GER. We disagree, however, that the SLC should last for five years. The GER is payable only for 2014 and 2015; therefore, the SLC should fall away after the second year's activities are completed.

Contents of the direction

We would like to understand why Ofgem believes keeping the qualifying and payment dates close together will minimise the cost and complexity of delivery. We see no strong correlation between the closeness of these two dates and the process being cheaper and simpler. We wonder what "shortly" might mean in this context.

Also, while the licence changes requiring suppliers to take all reasonable steps to avoid erroneous transfers (ET) occurring will be in force by the time this process is in place, where ETs occur around the qualification date, they may cause difficulty in determining the relevant supplier for payment of the GER.

Having to make specific reference to the GER on customers' bills may be problematic in the timescales posited. Bill changes can have a considerable lead time and we have recently completed a significant exercise in revising the design and content of our domestic bills.

Ofgem's proposed role and responsibilities

We have the following comments:

While we understand the need to ensure that taxpayers' money (in suppliers reclaiming the GER from government) is properly accounted for, the possible Ofgem requirements for monitoring supplier compliance are considerable. While we welcome, therefore, the statement that its role will be limited to ensuring the requirements of the scheme have been complied with, what this means in practice will be important.

We question, for example, the need for suppliers to submit pre-implementation notifications for approval etc to Ofgem. Once the process is finalised by DECC, time will be at a premium to implement its requirements for these to take effect in October. Given this will take place over the summer when key staff are on holiday, resources must be focussed on ensuring delivery. We would ask Ofgem to reconsider this aspect in its final proposals.

Will payments to suppliers be made only once Ofgem is satisfied with suppliers' compliance? If so, is Ofgem adequately resourced to undertake this exercise in a reasonable time frame for all affected suppliers so that payments are made likewise?

Ofgem questions

1. Whether you agree in principle with the proposal to introduce the new SLC, and your reasoning.

Yes (notwithstanding our preference for the costs of the rebate to be delivered through a reduction in the actual obligation costs).

2. Whether the proposed approach to the rebate is appropriate to minimise implementation costs and achieve the objective of reducing the burden of some environmental policy costs.

To a degree, but we question why the gap between qualification and payment in being kept in close proximity should reduce costs and complexity of meeting the obligation. We are also concerned that the proposals for reporting and monitoring of the rebate may prove disproportionate to the level of rebate provided, and we would ask that Ofgem seeks to minimise the administrative burden as much as possible.

3. Whether requiring all licensed electricity suppliers to provide the rebate to all of their domestic customers (without a *de minimis* bill threshold) is an appropriate way to provide for proportionality and not materially distort competition in the energy market.

Yes, it seems to be the simplest approach in the time suppliers will have to implement the GER proposals. Clearly, however, suppliers should not have to make payments for which we do not bill, for example, as there is no consumption

4. Whether there may be any unintended consequences in the implementation of the rebate in this way.

Some customers with low or no consumption may benefit from a rebate designed to offset some of the social/environmental costs that they have not been charged.

5. Whether introducing a sunset clause and limitations to the SoS' directions is an appropriate way to provide regulatory certainty.

Yes, although the sunset clause should reflect the length of time that the GER will be extant: ie two years, not five.

Finally once DECC has published its consultation, we wonder if it might be helpful to meet Ofgem soon after (perhaps under the aegis of EUK) to understand further and more fully its involvement in the process.

Please do not hesitate to contact me if there is any aspect of this reply that you wish to discuss.

Yours sincerely

Paul Tonkinson
Regulation
1 Bridgwater Road
Worcester
WR4 9FP
07989493019
paul.tonkinson@npower.com

