



Informal consultation on modification to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

We have real concerns about the provision for network operators to be granted a derogation to allow them to revise network charges without giving the full 15 months' notice to suppliers.

For energy suppliers, the financial impact of shortening the notice period in this way could be significant. For customers in a fixed term contract, it would not be possible to amend prices to reflect those changes, and the original prices of the tariff will have been based on the original network charges. This may have a detrimental financial impact on suppliers.

Suppliers are also likely to be prevented from recovering the additional charges from customers on variable tariffs as a result of the prepayment and default tariff price caps, if the revised network charges are not able to be reflected in their calculation. Whilst the price caps do provide a headroom allowance for unexpected costs, as we have already represented to Ofgem on several occasions this allowance is insufficient to cover for the full range of methodological imprecisions, cost risks and additional, unpredicted charges.

Even supposing that a supplier has set its default tariff prices sufficiently below the level of the cap that it has room to increase them to cover the additional charges as they arise, consideration must be given to the costs involved in notifying customers of the increase in prices.

Due to the number of suppliers who have been subject to the Supplier of Last Resort process in 2018 we anticipate a significant number of claims being made for Last Resort Supply Payments in 2019. This will put a significant upward pressure on network charges. If these are unrecoverable, more suppliers may experience financial pressures resulting in them failing. Such instability can only lead to consumer concern in the energy market and ultimately disengagement.

Should Ofgem consider that there are circumstances where a derogation to apply network charge increases within the current 15-month notice period, then such derogations should only be granted in the most severe of circumstances where failure to allow such changes would significantly impact the financial resilience of the relevant network operator.