



Grant McEachran
Ofgem,
3rd Floor Commonwealth House
32 Albion Street
Glasgow
G1 1LH

Issued via email

11th December 2018

Dear Grant,

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

Thank you for the aforementioned letter published on the 20th November 2018, npower welcomes the opportunity to offer its opinion and views on the proposals presented.

We are not supportive of the proposed modification that Ofgem are seeking to make in regard to reopening the Distribution Use of System (DUoS) tariffs in order to levy the SoLR charge. Fundamentally we do not believe that Ofgem has fully appreciated the risks and market consequences associated with reopening the Distribution Use of System (DUoS) tariffs in order to levy the SoLR charge.

There is much to learn from the recent supplier late payments, defaults, exits, and continuation of companies with defaulted subsidiaries. These costs flow to consumers in a variety of ways, one of which being the mandated insurance levied through use of system charges. Unlike other insurances where the risk taker pays the insurance premium, the situation here is that all parties other than the defaulting risk taker pay the premium. Via use of system charges, the costs flow to the cap, this is likely to be socially regressive.

We are concerned that the introduction of the 15 months' notice that was introduced as part of Distribution Connection use of System Agreement (DCUSA) modification DCP178 (2015) would be undermined by this additional modification. Suppliers would not be able to adjust fixed price contracts for within period charges and would be presented with a significant risk that these charges would not be recoverable. Therefore having the effect of placing supplier parties under additional financial stress.

We continue to reiterate our belief that there is value in investigating alternate processes that are available to you in terms of standard financial administration processes. This could include the use of a special administrator.

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We recognise that you are in the process of consulting the market on the current arrangements for new market entrants we recognise that following recent SoLR events that this need is strengthened in terms of new participant oversight to ensure that their overall business model remains stable and sustainable, and reporting (monitoring) to make sure behaviours are not detrimental to customers. It is imperative that there is regulatory oversight on existing companies as well as new entrants to reduce the risk of defaulting suppliers which leads to poor customer experience and additional financial stress to other market participants.

I trust this response meets your approval and I am available to discuss at your convenience if needed on the details shown below.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "M. Keen".

Matthew Keen
Regulation Lead
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