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Dear Grant,

Statutory consultation on modifications to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort.

We welcome the opportunity to provide our views on the proposed modifications to the Electricity Distribution Licence to recover costs associated with appointing a Supplier of Last Resort (SoLR). This response is submitted by SSE plc recognising electricity supply, electricity distribution network and independent electricity distribution network interests.

Taking into account all comments and Ofgem's views from the previous consultation we are satisfied with the proposed arrangements. We believe it is a positive step towards introducing a more balanced approach that helps to address an important issue of SoLR payments and bad debt recovery placing consumers at the heart of the modifications as well as protecting DNOs and IDNOs against exposure to an increasing level of unrecoverable costs caused by a growing number of suppliers who cease trading.

The arrangements also provide a more efficient cost recovery model which focuses on protecting all stakeholders, i.e. customers, suppliers, DNOs, IDNOs. That said, as previously set out in our response to the informal consultation, we continue to believe there is a fundamental market issue to be addressed; with several supplier failures over the last year, there is strong evidence of a need to review market entry and credit provision to ensure arrangements are robust and appropriately protect customers and industry participants. We therefore welcome the news that the DCUSA Standing Issues Group (SIG) is planning to form

a Working Group which will specifically look at how credit is made available to suppliers (e.g. Escrow, cash deposit, good payment record, Credit Agency Rating). This Working Group will establish if any changes to DCUSA are required which can increase the credibility and security of new suppliers entering the market.

We welcome the introduction of the materiality threshold as a sensible means of protecting DNOs and DUoS customers against covering unlimited SoLR payment claims for the period until funding is recovered through DUoS charges (up to 4 years). Nonetheless, we are disappointed that Ofgem has rejected all proposals made in responses to the last consultation to limit the risk exposure of network companies. Such high level of market and regulatory risk was not factored into price control settlements or returns and has increased significantly with number of failures in the last three years.

Finally, in terms of details, we have identified a small number of licence drafting errors which are described below:

- **Amended Condition CRC 2A. Restriction of Allowed Distribution Network Revenue (SSEH only).**
 - Paragraph 2A.11. The formula which derives REV requires amendments and should read as follows:

$$REV_{t-2} = (BRT_{t-2} + PT_{t-2} + HB_{t-2} - UN_{t-2} + IQ_{t-2} + LDR_{t-2}) / RPI_{t-2}$$
- **Amended Condition CRC 2B. Calculation of Allowed Pass-Through Items (SSEH only).**
 - Paragraph A 2B.4. The meaning of SLR_t should reference Part I of this condition rather than Part H.
 - Paragraph A B.4. The meaning of EBD_t should reference Part J of this condition rather than Part I.
 - Paragraph J 2B.40. For clarity this paragraph should state that the formula is to be used for Regulatory Year 2022/23.
- **Amended Condition CRC 2B. Calculation of Allowed Pass-Through Items.**
 - Paragraph 2B.37. Regulatory Year 2021/22 should be removed from this paragraph as the formula to calculate EBD_t for Regulatory Year 2021/22 is listed in paragraph 2B.38 (a).
- **New Condition 38B. Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019. Application of Materiality Threshold.**
 - Paragraph 38B.5 should have the word “received” added as follows: *The value of aggregated payments to be made by a licensee in respect of Valid Claims, less the aggregated payments to be made by a licensee in respect of Valid Claims subject to paragraph 38B.9 of this condition, **received** in any Regulatory Year would exceed the Materiality Threshold amount applicable to the licensee (...)* This will add the clarity that the Materiality Threshold is calculated in relation to payments made for Valid Claims received in a Regulatory Year, rather than payments made in a Regulatory



Year. This is necessary as payments are made over a 12-month period which will not coincide with the Regulatory Year the claims are received in.

I can confirm SSE plc supports the implementation of the proposed licence modifications which will facilitate the recovery of the costs associated with appointing the Supplier of Last Resort.

Please do not hesitate to contact me if you would like to discuss any aspect of this response.

Yours sincerely,

A handwritten signature in black ink that reads 'Beverley Grubb'.

Beverley Grubb
Regulation