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Philippa Pickford
Consumers and Markets
Ofgem
10 South Colonnade
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26 July 2019

Dear Philippa,

LAST RESORT SUPPLIER PAYMENT CLAIM FROM TOGETHER ENERGY LIMITED

Thank you for the opportunity to make representations on Ofgem's minded-to position in relation to Together Energy Limited's (Together Energy) claim for a Last Resort Supply Payment in relation to its role as Supplier of Last Resort (SoLR) to customers of the former OneSelect Limited (OneSelect).

Ofgem's letter of 28 June sets out the four claims that Together Energy has made in relation to use of the industry levy, with Ofgem minded to consent to all of them. For the reasons set out in Annex 1, we agree with Ofgem's position to consent to all claims in this particular case.

We would highlight that while we agree with Ofgem's minded-to position for cost item claims 2 and 4, we would welcome further detail and transparency from Ofgem around its process for appointing a SoLR and in particular how it balances the greater risk and uncertainty that may exist in some suppliers' bids.

In particular, smaller suppliers may be more exposed to higher costs of emergency procurement purchase and interest on working capital than larger suppliers who may be able to secure more favourable terms in the market. Where these costs are foreseeable at the time of the bid, suppliers will either factor the costs into the bid via a higher deemed tariff price, or via an intent to claim from the industry levy. In this case we are comfortable that Ofgem is able to factor this into its assessment of the best SoLR bid for consumers.

It is less clear to us, however, how Ofgem takes into account the potentially greater risk associated with smaller suppliers' exposure to unforeseeable changes in cost. For example, Together Energy appears to have been exposed to material changes in interest rates since it submitted its initial bid, leading to a higher than expected claim from the industry levy. We would welcome greater clarity on how Ofgem assesses such potential risks when appointing a SoLR.

Should you wish to discuss further or have any questions please contact me via the details provided or contact Rhona Peat (rhona.peat@scottishpower.com).

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Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive style with a large initial 'R'.

Richard Sweet
Head of Regulatory Policy

**LAST RESORT SUPPLIER PAYMENT CLAIM FROM TOGETHER ENERGY LIMITED –
SCOTTISHPOWER COMMENTS**

Cost item 1: Recovery of 63% of OneSelect customers' net credit balances (£3.3m)

We have no representations to make in relation to Together Energy's claim on the industry levy for the credit balances of live and former OneSelect customers. As Ofgem notes, paragraph 2.27 of the SoLR Guidance mentions credit balances as one area where Ofgem would consider a claim under the industry levy to be reasonable, and we note that Together Energy's claim is consistent with its submission to act as SoLR for OneSelect customers.

Ofgem notes that its decision is conditional upon future adjustments to the claim amount in relation to completion of the process of returning credit balances, including any adjustments for any costs recovered through the liquidation process and the value of debt recovered from former OneSelect customers, net of costs, and we agree with this approach by Ofgem.

Cost item 2: Wholesale emergency purchase (£21k)

Historically we would normally expect that a SoLR would factor into its bid the costs associated with any required wholesale emergency purchases as this would be foreseeable at the time the SoLR submitted its bid to Ofgem, and that a claim for these costs from the industry levy would only be made in circumstances where the actual requirement for wholesale energy or the exposure to costs turned out to be materially different to the information provided to the SoLR at the point they submitted their bid. In the current environment we understand the constraints that the default tariff cap may place on suppliers in offering a deemed tariff price that includes such additional costs and therefore that there may be reasons why a claim from the industry levy for these costs is reasonable.

We therefore agree with Ofgem's minded-to position in this case, noting the low value of the claim and that the claim is lower than Together Energy submitted in its SoLR bid.

Cost item 3: IT migration, data cleansing and billing (£777k)

We agree with Ofgem's minded-to position to consent to Together Energy's claim for IT migration, data cleansing and billing costs, noting that a key driver for the costs incurred by Together Energy relates to processes implemented to access the historic billing system to support verification of customer accounts, establishing accurate credit or debit positions, supporting customers through the transition from OneSelect to Together Energy and ensuring they were not disadvantaged.

We understand, based on our own experience of acting as a SoLR in recent months, that data access and quality can be a significant challenge for SoLRs in verifying customer account data and establishing credit or debit balances with the failed supplier. We recognise that in many cases additional costs will be incurred by SoLRs to ensure customers do not suffer disadvantage or detriment through the SoLR process and that these costs are unlikely to be foreseeable by the SoLR based on the information provided by Ofgem in the initial request for information. We therefore agree with Ofgem's minded-to position for this cost item.

Cost item 4: Interest on LRSP profile costs (£717k)

We agree that it is reasonable to consent to a claim for the costs incurred by Together Energy to cover the cost of interest in working capital used to finance its activities as a SoLR, to the extent that Ofgem has consented to the costs being claimed from the industry levy and in respect of the period until Together Energy receives payment from the levy.

We note in this case that the interest being claimed is higher than Together Energy expected when it submitted its initial bid to act as SoLR, and we also note that the interest costs appear materially higher in scale than in previous SoLR Last Resort Supply Payment (LRSP) claims.

As we have noted in our cover letter, we are comfortable with how Ofgem considers the inherent additional costs that smaller suppliers may be exposed to due to their smaller scale and inability to secure favourable terms in the market when comparing potential SoLR bids. However we are less clear how Ofgem considers the potentially greater risks with smaller suppliers' exposure to unforeseeable changes in cost.. For example, Together Energy appears to have been exposed to material changes in interest rates since it submitted its initial bid, leading to a higher than expected claim from the industry levy. We would welcome greater clarity on how Ofgem assesses such potential risk when appointing a SoLR.

ScottishPower
July 2019