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Supplier Licensing Review: reducing credit balance mutualisation

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In June 2018, we announced our intention to review energy supplier licensing arrangements to ensure appropriate protections are in place against financial instability and poor customer service. The review covers conditions for entering the market, ongoing requirements and exit arrangements. New entry requirements came into effect in July 2019 and new ongoing and exit arrangements came into effect in January 2021.

These changes are a significant step forward. However, we consider more action may be needed to reduce the likelihood and scale of costs that can be socialised across other parties when a supplier fails.

This consultation sets out our proposals for further, prescriptive requirements to reduce the impact of supplier failure – specifically how we reduce the risk that customer credit balances need to be mutualised. We request stakeholder feedback on our proposals by 12 May 2021.

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Contents

Executive summary

As part of the Supplier Licensing Review, we are consulting on proposals for prescriptive rules to reduce the scale of credit balances at risk of mutualisation in the event of supplier failure.

We first considered prescriptive rules aimed at minimising the mutualisation of credit balances and government scheme costs (particularly the Renewables Obligation (**RO**)) in October 2019. We subsequently decided to split out consideration of changes to the RO, to enable us to work with the Department for Business, Energy and Industrial Strategy (**BEIS**) on the range of potential options for RO reform, while progressing our work on credit balance protections in parallel. We are continuing to work with BEIS on measures to address RO mutualisation and will shortly publish a joint consultation on our proposals.

Following careful consideration of stakeholder responses to our original October 2019 consultation, we have undertaken further work to ensure any changes we introduce are a cost-effective way of reducing credit balance mutualisation, seeking to avoid high costs being passed to consumers and the risk of other unintended consequences.

The fixed direct debit (**DD**) payment model – which gives rise to the majority of credit balances – can deliver significant consumer benefits, particularly in smoothing out energy bills throughout the year thereby improving affordability and predictability. The nature of this payment model means that suppliers gain a working capital benefit arising from customers overpaying for their energy in summer before underpaying in winter. Providing the direct debit has been set correctly, credit balances arising in this way represent a prepayment for future energy use.

However, due to a range of factors such as setting the direct debit too high, suppliers can collect more credit balances than they require to service their customers. We have defined these as "**surplus credit balances**."

Irresponsible suppliers may use surplus credit balances to finance risky strategies, particularly unsustainably low-priced tariffs which they would otherwise not be able to offer. We note that a supplier may choose to risk their own or their investor's money to adopt such a strategy, but we do not think they should risk their customers' money to do so.

Our proposals target surplus credit balances, reducing the credit balances at risk of mutualisation, whilst allowing suppliers to collect the credit balances they require to service their customers. We are proposing two complementary changes to the supply licences:

1. **Autorefund**: An account-level requirement on suppliers to refund any credit balance above £0 at the end of each contract year; and

2. **Thresholds:** A requirement to introduce credit balance thresholds at key points during the year; suppliers that exceed the threshold, at an aggregate level, will need to protect credit balances above the threshold.

Autorefund: We consider this proposal will complement existing rules that require suppliers to set direct debits accurately by acting as a backstop. In instances where a customer's credit balance is above £0 after 12 months, and therefore they have overpaid for their energy and/or received credit from other sources, meaning that their account is in surplus, they would get a refund of this surplus. This directly tackles surplus credit balances on a per account basis annually.

Thresholds: However, autorefunds alone will not solve the problem. This is because they will not stop individual accounts accruing significant surplus credit balances within the year. This means that suppliers could still, at the portfolio level, benefit from surplus credit balances and therefore use their customers' money to fund otherwise unsustainable business models. Our thresholds policy would address this particular risk.

Our thresholds proposal may particularly impact suppliers that operate a payment in advance business model where they take money from consumers ahead of consumption. Currently, suppliers operating in this way gain a working capital benefit but also put more risk onto the rest of the market. Our proposals would put the cost of this risk onto the suppliers operating this business model.

Next steps

We invite stakeholder views on our proposals by 12 May 2021. We aim to engage with stakeholders directly and, after considering stakeholder responses, we expect to publish a statutory consultation in the autumn.

1. Introduction

Questions

Question 1: Do you agree with our objectives set out in chapter 1?

Question 2: Do you agree that our proposals meet our objectives as set out in chapter 1? Please provide views on both our autorefund and threshold proposals and any alternatives you consider that meet our objectives that Ofgem should assess.

Question 3: Do you agree that our draft Standard Licence Conditions reflect our policy intent?

1.1. The retail market in GB has undergone significant changes over the last ten years. Competition – in the form of the number of suppliers, switching, and new products and services – has increased significantly, bringing benefits to consumers by way of improved choice and more competitive pricing.

1.2. However, standards in the supply market have not always been what we would expect of companies providing an essential service. A supplier that cannot meet its customer, regulatory and financial obligations can cause harm to energy consumers. This harm can manifest in different ways, leading to poor customer service or unfair treatment of customers.

1.3. Our current Supplier of Last Resort (**SoLR**) arrangements minimise disruption when a supplier fails, maintaining continuity of supply and ensuring domestic customer credit balances are protected. However, supplier failures can be disruptive and confusing for affected customers. In certain circumstances where a supplier fails, some of the sums it owes may be recovered from other suppliers – this includes customer credit balances, the cost of which can be recovered by appointed SoLRs, following Ofgem's consent, via a claim on an industry levy.[1] Subject to Ofgem's consent, the cost of any payment to a

[1] This levy mechanism is provided for in Standard Licence Condition (**SLC**) 9 of the gas and electricity supply licences, SLCs 38 and 38A of the electricity distribution licence, and SLC 48 of the gas transporters licence. As explained in Ofgem's Guidance on supplier of last resort and energy supply company administration orders: "*Claims under the industry levy will continue to be considered on a case-by-case basis but those made in support of measures to address the loss of balances would be within the circumstances for which we consider approving a claim.*" The guidance goes on to explain that Ofgem will seek to avoid use of the levy, saying that "*Ofgem would prefer a SoLR not to make a claim via the levy arrangements for costs it has incurred carrying out its role. We would expect an efficient SoLR to be able to cover its own costs and not rely on additional payment through the levy arrangements.*"

SoLR is passed on to other suppliers through network charges. As a result, these costs may ultimately be passed through to consumer bills, so supplier failures can have consequences for all energy consumers. Other harm could arise from undermining consumer confidence in switching and the market as a whole, particularly regarding consumers' willingness to switch to newer entrants.

Background to the Supplier Licensing Review and our work on credit balances

1.4. Our Supplier Licensing Review seeks to mitigate the potential for consumer harm by strengthening our regulatory regime to raise supplier standards of customer service and financial resilience. We aim to do this by introducing stronger, but proportionate, requirements so that both consumers and Ofgem have confidence that suppliers will deliver a level of service that is appropriate for an essential service. This is an important step in facilitating a better functioning retail market.

1.5. This has been a multi-phased project. Our new entry requirements[2] came into effect in 2019, raising the standards required of companies entering the energy retail market. And in November 2020, we made our decision to introduce a range of new ongoing and exit requirements for suppliers operating in the market.[3]

1.6. These measures will (i) promote more responsible risk management, (ii) improve governance and increase accountability, and (iii) enhance our market oversight.

1.7. During the development of these ongoing and exit measures, we made the decision to phase our work on protections to reduce the impacts of costs being mutualised when a supplier fails, including credit balance costs.[4] This was in response to feedback we received to an earlier consultation.[5] We decided to undertake further analysis before proceeding to introduce further prescriptive rules, which would require suppliers to protect costs such as credit balances.

[2] Ofgem, Supplier Licensing Review: Final Proposals on Entry Requirements, 2019.
[3] Ofgem, Decision on the Supplier Licensing Review: Ongoing requirements and exit arrangements, 2020
[4] Ofgem, Update on timing and next steps on the Supplier Licensing Review, 2020
[5] Ofgem, Supplier Licensing Review: Ongoing requirements and exit arrangements, 2020

1.8. Ahead of introducing any prescriptive rules, and as part of our November 2020 reforms, we decided to first introduce a new principles-based requirement – the "Financial Responsibility Principle" – for suppliers to take action to mitigate the extent of costs that could be mutualised in the event of their failure.

1.9. The Financial Responsibility Principle is as an over-arching obligation supporting one of the key aims of the Supplier Licensing Review by ensuring suppliers act in a more financially responsible manner and take steps to bear an appropriate share of their risk. The new principle enables us to take action at an earlier stage where suppliers are behaving in a financially irresponsible manner. However, it may not, by itself, provide complete certainty that suppliers have put in place appropriate protections to prevent the need for cost mutualisation in the event of their failure.

1.10. We continue to consider that prescriptive rules that complement our overarching principle are necessary to minimise the risk and level of mutualisation of customer credit balances, and other costs, when a supplier fails.

1.11. This document sets out our revised proposals for these prescriptive rules. This consultation focuses on the work we are doing in relation to credit balances. We will consult separately with BEIS on RO cost mutualisation protections (see paragraphs 1.16 - 1.18 below).

Development and assessment of our proposals

1.12. There are four overarching themes that have informed our policy development as part of the Supplier Licensing Review. These are that:

- suppliers should adopt effective risk management, be adequately prepared and resourced for growth, and bear an appropriate share of their risk;
- suppliers should maintain the capacity and capability to deliver a quality service to their customers, and foster an open and constructive relationship with Ofgem;
- Ofgem should have proportionate oversight of suppliers, and there should be effective protections for consumers in the event of supplier failure, and

- Ofgem's licensing regime should facilitate effective competition and enable innovation.

1.13. By maintaining this common set of themes, we have ensured the reforms delivered in each of the three workstreams of the Supplier Licensing Review (entry, ongoing and exit) align and work together as a package. We have continued to be mindful of ensuring that any prescriptive rules on credit balances also integrate with our existing reforms and will further contribute to raising standards in the energy market.

1.14. In assessing whether and what additional prescriptive requirements may be necessary regarding credit balances, we determined that we require further, more specific objectives to assess options against. These align with the Supplier Licensing Review's overarching themes. We aim to:

- minimise the likelihood and extent of costs to be mutualised in the event of failure in the most cost-effective way,
- encourage more responsible business practices in the GB energy retail market,
- ensure that suppliers bear an appropriate share of the cost of the mutualisation risk they pose to the market, and
- ensure that regulatory costs do not unduly hamper good practice, market entry, innovation, and growth.

1.15. We have used these objectives as a framework against which to assess options. This has enabled us to make an initial comparative assessment of options and provide an initial view of our proposed way forward. This analysis is summarised in this consultation document.

Links and Dependencies

1.16. **The Renewables Obligation Scheme (RO):** is one of the main support mechanisms for large-scale renewable electricity projects in the UK. Suppliers collect RO revenues from their customers throughout the year and are required to present Renewables Obligation Certificates (**ROC**s) to Ofgem (as administrators of the scheme)

or make an equivalent cash payment into the RO buyout fund at the end of August each year. There is also a late payment window until the end of October. If there is a shortfall in the funds received above a threshold set by government,[6] this amount is then recovered from all suppliers that have made RO payments (this is known as "**mutualisation**").[7] As we set out below, the total value of the RO scheme and, therefore, the potential scale of mutualisation is greater than supplier credit balance liabilities.

1.17. The design of the RO scheme creates a risk that a defaulting supplier can potentially have accrued 19 months of its obligation before it is in breach of any licence conditions, and possibly more by the time it exits the market.[8] It also creates a risk that suppliers use money that should be set aside to fulfil their RO to fund other business activities throughout the year.

1.18. In our original consultation, we proposed that suppliers protect a minimum of 50% of both customer credit balances and their RO. We subsequently decided to split out consideration of changes to the RO, to enable us to work jointly with colleagues at BEIS, which oversees the statutory framework relating to the RO scheme, on the options for RO costs. We will separately publish a joint consultation exploring the full range of options for addressing RO mutualisation, including increasing the frequency of RO compliance and potential licence changes to require suppliers to protect or demonstrate their ability to pay the RO. We will continue to ensure that reforms of the RO and prescriptive rules on customer credit balances complement each other.

1.19. **Other government schemes and policies:** there is also a risk that other costs incurred by suppliers under government schemes may be mutualised on failure, primarily the Feed in Tariff (**FiT**s) and the Capacity Market.[9] However, there is less risk

[6] The threshold for mutualisation is currently £15.4m for the RO England and Wales, and £1.54m for the RO Scotland. BEIS expect to increase the threshold from the 2021/22 scheme year, subject to Parliamentary approval. BEIS, Renewables obligation: changes to mutualisation arrangements, 2020
[7] Suppliers who make RO payments by the late payment deadline (currently 31 October) are liable for mutualisation payments.
[8] RO liability is calculated on a financial year running from April to March, with ROCs or buy-out payments due by the end of the following August and late payments can be made by the end of October. In the time between the RO year finishing in March and payment being due, a supplier is accruing its obligation for the following year. This means that a supplier can have accrued 12 months of its previous year's obligation, plus 7 months of its current year obligation, before it breaches payment requirements at the end of October. This means 19 months of obligation could be mutualised, and possibly more depending on the manner and timing of market exit.
[9] Ofgem, Feed-in Tariffs (FIT); Ofgem, Capacity Market (CM) Rules.

for suppliers to accrue significant liabilities as the FiTs scheme is settled quarterly and the Capacity Market has robust credit control mechanisms already in place. Therefore, while we continue to monitor supplier compliance with these schemes and take enforcement action where appropriate to minimise the risk and scale of mutualisation, we have not included them as part of our work on the Supplier Licensing Review.

1.20. **Financial Responsibility Principle (FRP):** the FRP was implemented on 22 January 2021. This is an important new tool which enables Ofgem to hold suppliers to account for their approach to managing financial risk. Crucially, it requires suppliers to demonstrate, among other things, that they are prepared to meet regulatory payments and gives us additional powers to intervene where a supplier is acting irresponsibly. We consider that this will be important to driving more responsible behaviour among suppliers and minimise the costs at risk of being mutualised in the event of failure.

1.21. Any new prescriptive rules on credit balances will complement this new principle. The FRP will continue to apply, and any new prescriptive rules would augment and strengthen the requirements on suppliers to reduce the likelihood and scale of cost mutualisation, and our ability to take action where necessary.

Structure of this document

1.22. This document is structured as follows:

- Chapter 2 outlines the problem we are trying to solve with regards to credit balances and the scale of that problem,
- Chapter 3 summaries the key feedback to our original proposals on credit balances from October 2019 and how we have responded to this,
- Chapter 4 sets out our new proposals,
- Chapter 5 outlines our assessment of these proposals,
- Appendix 1 sets out more detail on our cost/benefit assessment,
- Appendix 2 links to our model for setting credit balance threshold that is published separately,

- Appendix 3 sets out draft versions of new licence conditions to give effect to the proposals set out in this consultation,

- Appendix 4 sets out the relevant information about the protection mechanisms used in our threshold policy,

- Appendix 5 sets out more information on responding to this consultation and your confidentiality, and

- Appendix 6 is our privacy notice on consultations.

Related publications

1.23. This consultation is part of the Supplier Licensing Review. As part of this review we have also published the following documents:

- **Supplier Licensing Review: Final Proposals on Entry Requirements (11 April 2019):** https://www.ofgem.gov.uk/system/files/docs/2019/04/slr_-_final_proposals_on_entry_requirements.pdf

- **Supplier Licensing Review: Ongoing requirements and exit arrangements (22 October 2019):** https://www.ofgem.gov.uk/system/files/docs/2019/10/slr_policy_consultation_new_updated.pdf

- **Statutory Consultation – Supplier Licensing Review: Ongoing requirements and exit arrangements (25 June 2020):** https://www.ofgem.gov.uk/system/files/docs/2020/06/240620_-_slr_statutory_consultation_final.pdf

- **Supplier Licensing Review: Ongoing requirements and exit arrangements – Decision (26 November 2020):** https://www.ofgem.gov.uk/system/files/docs/2020/11/201117_-_slr_decision_doc_final_v.2.pdf

Responses and next steps

1.24. We welcome stakeholder views on the proposals set out in this document, and on the model we have published in parallel, by 12 May 2021. Please send your response to supplier@ofgem.gov.uk.

1.25. We appreciate the interest that suppliers will have in these proposals and as such we intend to convene an industry workshop in the coming weeks.

1.26. Subject to the responses received to this consultation and feedback received via our engagement with stakeholders, we intend to issue a statutory consultation on our proposals in autumn 2021. We would then expect to make our decision before the end of the year. Allowing for an implementation period, we expect any new requirements to be in place before the end of the summer 2022.

2. Credit balances – what is the problem we are trying to solve?

Chapter summary

Credit balances are an intrinsic feature of the fixed direct debit payment model and, providing customers' direct debits are set accurately, represent prepayment for future energy use. They can deliver benefits for both consumers and suppliers. However, suppliers can currently accrue surplus credit balances, which we view as particularly distortive, and use these to fund risky business strategies. Existing rules, while helpful, do not sufficiently address all the causes of surplus credit balances.

What are credit balances and why can they be problematic?

2.1. Credit balances generally arise when the customer has paid for more energy than they have used (as opposed to a debit balance when the amount paid is less than has been used).

2.2. Aside from the pre-payment meter (**PPM**) market,[10] credit balances are most common in the fixed DD market which is used by the majority of customers in the GB market. Here, customers pay a fixed amount each month to smooth the cost of energy throughout the year.[11]

2.3. To facilitate this, suppliers need customers to build credit balances in the summer that are then eaten into in the winter. Credit balances are, therefore, an intrinsic feature of the fixed DD payment model and the lag effect of the consumer overpaying in the summer compared to their usage before underpaying in winter compared to their usage,

[10] Customers with PPMs pay for their energy in advance and, therefore, providing they are not in debt, will have a credit balance.
[11] Credit balances can also arise in the variable direct debit or standard credit market. Here consumers pay a different amount each billing period (monthly or quarterly) according to their usage. Credit balances can be built up if usage is estimated incorrectly resulting in an overpayment. Our assumption is that these credit balances tend to be small and corrected throughout the year as these accounts are designed so that, once billed, the account balance is close to £0 at all times.

is that a supplier holds more consumer money than they need for around half the year. If the supplier has set the DD accurately this should even up over the course of the year. Before this evening up occurs, the supplier gains a working capital benefit.

2.4. In other words, a credit balance collected as a prepayment for future energy use – providing the DD has been set correctly – is money that a supplier will eventually be owed by their customer and, as such, can be viewed as revenue**.**

2.5. The fixed DD model, and therefore credit balances themselves, can be beneficial for both suppliers and customers.

2.6. For customers, the smoothing of energy costs throughout the year removes the large seasonal impact that winter has, thereby lowering their energy costs during the winter months. It also provides predictability. The customer (providing the DD has been set up accurately) knows exactly what they'll pay each month enabling them to budget more effectively.

2.7. For suppliers, credit balances act as a cheap source of working capital. Responsible suppliers can use this to cover operational expenses such as the forward purchasing of energy. This should enable them to price more sustainably and at lower cost, thereby delivering further consumer benefit.

2.8. Given the benefits this payment model can deliver, and the prudent behaviour it can facilitate, we do not consider that credit balances are necessarily a problem in and of themselves.

2.9. However, as suppliers gain a working capital benefit from credit balances, it means they have access to capital they would otherwise need to seek commercially. This can enable suppliers to take risks like offering loss-making tariffs, particularly if they collect more credit balances than they need to serve their customers (see "surplus credit balances" below). Without the free sources of working capital there would be a check on this as investors and banks would only allow suppliers to pursue such a strategy if they were comfortable with the risk. Currently, suppliers can potentially avoid these types of constraints by using their customers' money rather than shareholders' or other investors'.

2.10. This use of customer credit balances can contribute to:

- **Distortive impact on competition:** suppliers using customer credit balances can fund unsustainably low-priced tariffs without adequate finances to do so in an effort to win the market share required to turn profitable. Other suppliers in the market are then forced to either match these tariffs, thereby potentially putting themselves at risk, or sacrifice market share.

- **Direct impact on consumer bills**: in circumstances when a supplier pursuing such a risky strategy fails they could, if the appointed SoLR makes a claim to recover costs via the SoLR levy, increase costs for all consumers. As set out in chapter 1, when suppliers fail, their costs, including credit balances, may be mutualised to all consumers via increased network charges.[12]

Surplus credit balances

2.11. As stated, the fixed DD model necessarily gives rise to credit balances. Therefore, even if a supplier is setting the fixed DD as accurately as possible and the account balance ends up at £0 over 12 months, they can – depending on when their customers start their contracts – gain a working capital benefit in the period when the fixed DD customer payment is greater than their usage.

2.12. However, the negative impacts outlined above are particularly exacerbated should a supplier accrue "surplus credit balances". We have defined surplus credit balances as those above the level the supplier needs to collect to cover a consumer's underpayment over the winter months – their "**winter debt**".

[12] Our SoLR guidance sets out that we will decide on a case-by-case basis whether it might be appropriate for a SoLR to make a levy claim. We also note that, in certain circumstances, we may consider it appropriate to approve a claim where it relates to costs associated with the protection of customers who held a credit balance with the failed supplier. Both Ofgem and the SoLR use the administration process to recover as much as possible to minimise the amount that is eventually mutualised. Ofgem, Supplier of Last Resort: Revised Guidance 2016, 2016

2.13. There are reasons why credit balances may be above the level required to service the customer:

1. **Supplier error/poor practice:**

    a. Error: if suppliers over-estimate the annual consumption of the consumer they will set the fixed DD amount too high resulting in a surplus.

    b. Poor practice: suppliers can accrue surplus credit balances if they do not take action like reviewing customers' DDs regularly, taking all reasonable steps to attain meter readings on which to base DDs, and / or billing regularly to reconcile accounts to their accurate position.[13]

2. **Discretionary rewards and payments:** suppliers that offer sign-up bonuses or goodwill payments in the form of account credits will result in credit balances that are no longer solely tied to annual consumption.

3. **Payment model:** suppliers operating a payment in advance model where the DD is taken at the start of the month in advance of consumption (rather than in arrears) will accrue surplus credit balances by at least the value of one month's worth of energy. Suppliers operating in this way gain a working capital benefit as, rather than having to raise capital to cover each month of their customers' consumption, this is covered by their customers' own money.

Existing regulations

2.14. The supply licences do not contain any provisions specifically on the size of credit balances but they do contain rules governing the setting of fixed DDs (SLC 27.15) and refunding credit balances (SLC 27.16):

- SLC 27.15 requires suppliers (unless the terms and conditions of the contract provide otherwise) to take all reasonable steps to set fixed DDs based on the best and most accurate information available – such as the

[13] SLC 21B requires suppliers to take all reasonable steps to obtain a meter reading at least once per year: Ofgem, Electricity Supply Licence; Ofgem, Gas Supply Licence

volume of energy they expect the consumer to use each contract year. In other words, suppliers should set the fixed DD so that over the course of each contract year the credit balance is £0 and there is no surplus.

- SLC 27.16 requires suppliers to refund credit when a consumer requests it, unless it is fair and reasonable for them not to. If a supplier refuses to issue a refund they must explain why to the consumer.

2.15. As set out above, there are multiple reasons why a credit balance may go into surplus, not only because the fixed DD is set too high. Currently the licence does not contain specific rules addressing these factors. Therefore, to give effect to the proposals we set out in chapter 4 we expect that new licence requirements will be necessary which will complement SLC 27.15 and SLC 27.16.

2.16. Furthermore, in taking forward our proposals to address these contributors to surplus credit balances we have re-examined SLC 27.15 and consider it could also be strengthened. In particular, we do not believe suppliers should be able to use their terms and conditions to derogate themselves from the requirement to set fixed DDs accurately, which SLC 27.15, as currently drafted, permits. This would seem to allow suppliers to set fixed DDs so that credit balances go into surplus without breaching the licence, which undermines the intent of the SLC. In addition, we also consider that SLC 27.15 should not be an "all reasonable steps" condition but rather a firm requirement. This change would remove subjectivity and make our expectations clearer.

2.17. Throughout the Supplier Licensing Review, stakeholders have requested that Ofgem provides draft licence changes as early as possible. In response to this feedback we have included draft SLC changes in appendix 3. We want to emphasise that including draft SLCs does not prejudice the outcome of this and subsequent consultations; we are consulting openly.

Scale of the problem

2.18. Credit balances are not the only cheap form of working capital available to suppliers and it is informative to compare them to the other main contributor to the market distortions outlined above: the RO.

2.19. The value of the RO scheme, and therefore potential free working capital, is around £6.5bn compared with around £2.4bn in total fixed DD credit balances.[14]

2.20. However, much of current market credit balances represent money that the supplier needs to use to supply customers, ie they are a prepayment for future energy usage. Our analysis shows that suppliers have access to between £590m - £1.4bn of free working capital in the form of surplus credit balances – ie those credit balances that are not required to supply a customer.[15]

2.21. As we explain in appendix 1, this wide range in the value of surplus credit balances is driven by our methodology for defining what is and is not surplus. Using the most lenient version of our threshold – which makes no adjustment for customers starting at different times of the year and therefore having different credit balance requirements – there is £590m of surplus credit balances in the market. Using our proposed threshold as outlined chapter 4 which accounts for consumers starting across the year, there is £1.4bn of surplus credit balances in the market.[16]

Summary of our Request for Information (RFI)

In summer 2020, we issued a RFI to all domestic suppliers regarding their credit balances and monthly revenue. From this, we calculated the credit balances required in each month of 2018 for suppliers to collect enough money from their fixed DD customers to cover their winter debt, and the actual credit balance positions of all suppliers. This analysis showed that, in October 2018, there was between £590m - £1.4bn in surplus credit balances in the market.

2.22. As set out in this chapter, credit balances can represent a prepayment from consumers for future energy usage. On the other hand, any money collected from consumers for the purposes of meeting their RO obligation should only be used for that purpose and not to meet other operational costs. Due to the design of the RO scheme

[14] The value of the RO can change depending on scheme year.
[15] Calculation based on data returned to us as part of 2018 RFI, more information in *Summary of our Request for Information* box.
[16] Consumers that start in winter spend more of the year in debit before their credit balance trends back towards £0 and so require a smaller credit balance than those consumers that start in summer and build up a higher credit balance before it is drawn down over winter as it trends towards £0.

itself, and the delayed payment window, a supplier failure could lead to the mutualisation of more than 19 months' worth of RO obligation which includes mutualisation of some of the failed supplier's obligation for the subsequent year.[17] Before this point, the supplier benefits if they use the money that should be for the RO to fund their business.

2.23. Since 2018, total RO mutualisation has been c£189.2m, compared to c£47.6m from credit balances.[18] In part, the differential between these mutualisation figures is driven by the fact that suppliers bidding to be the SoLR will often agree to cover some or all of the costs of the credit balance liability of the failed supplier.[19]

2.24. This is not to downplay the credit balance element of the market distortion caused by low-cost working capital or the impact of credit balance mutualisation on consumers, rather it is helpful to keep in mind the materiality of the problem when considering the optimal solution to this part of the problem.

[17] See footnote 8 for further explanation of how more than 19 months' worth of obligation can be built up by a supplier under current rules.
[18] RO mutualisation has been triggered in 2017/2018, 2018/2019 and 2019/2020. Ofgem has published a notice of RO shortfall for each of these years. Ofgem, Renewables Obligation Late Payment Distribution 2017 – 2018, 2018; Ofgem, Renewables Obligation Late Payment Distribution 2018 - 2019, 2019; Ofgem, Renewables Obligation Late Payment Distribution 2019 – 2020, 2020.
[19] The £189.2m in RO mutualisation does not account for payments received and redistributed after the late payment deadline, these have amounted to £44,578,306.96. More information on Additional Payment Distribution can be found on our website. Ofgem, Renewables Obligation: Additional Payment Distribution April 2019, 2019; Ofgem, Renewables Obligation: Additional Payment Distribution June 2020, 2020; Renewables Obligation: Additional Payment Distribution January 2021, 2021.

3. Feedback on our original proposals and our view

Chapter summary

In this chapter we set out feedback on our original proposals, published in October 2019, where we proposed that suppliers protect a minimum of 50% of customer credit balances and a proportion of government scheme costs – including the RO.

Based on feedback from stakeholders we now consider that these proposals are unlikely to be a cost-effective way of protecting customers' credit balances, would also raise barriers to market entry, and reduce product choice.

We conclude there are more cost-effective and proportionate ways to reduce the scale of credit balances at risk of mutualisation.

Background to our original proposal

3.1. In our October 2019 policy consultation, we proposed to require suppliers to protect a minimum of 50% of customer credit balances and a proportion of government scheme costs – including the RO.

3.2. This proposal would have assigned the costs associated with the risk of mutualisation on those parties responsible for that risk. It would have shifted 50% of the total mutualisation risk from all suppliers (and therefore all consumers) firmly onto individual suppliers.

3.3. In our consultation, we noted the trade-off between the right level of protection to minimise the risk of mutualisation whilst also not creating inappropriately high barriers to market entry and innovation. We stated that requiring suppliers to protect all their credit balance and scheme liabilities would, naturally, have the greatest direct benefit in reducing the likelihood and impact of cost mutualisation. However, this would be likely to impose too high a cost on suppliers and raise the barrier to entry too high, thereby reducing innovation.

3.4. With this in mind, we considered that requiring suppliers to protect 50% of customer credit balances and government scheme costs was the right balance between

protecting against the risks and effect of mutualisation but not unduly impacting market entry and innovation.

Key figures from our original draft Impact Assessment

3.5. We had assumed that half of credit balances would be protected via a third party guarantee at a cost of 0.5% per GBP protected, with the remaining 50% of the market being protected via an escrow account or parent company guarantee at negligible cost.[20]

3.6. We then used these figures to calculate the net benefit of the 50% proposal which came to £38.8m over 10 years, assuming that four suppliers fail per year.[21]

Stakeholder views

3.7. Responses to our consultation were sharply divided. Although most stakeholders agreed that something needs to be done to reduce the likelihood and scale of cost mutualisation, there was strong disagreement about how to achieve this, and how costly it would be.

3.8. In general, larger suppliers called for Ofgem to require 100% protection of both RO and credit balances liabilities. Smaller suppliers and newer entrants raised significant concerns over the costs of our proposals.

3.9. Suppliers particularly critiqued our assessment of the cost of capital. Responses highlighted that the cost of our protections and the cost of capital would likely be much higher than we had originally assumed.

Our views

3.10. We have undertaken further analysis on the likely costs of protections and cost of capital suppliers would incur if they were to protect 50% of their credit balance liability. We now understand that the likely cost would be much higher, in the range of 8.5% to more than 20% for smaller, non-investment grade, suppliers (analysis from the

[20] Ofgem, Impact Assessment Supplier Licensing Review – ongoing requirements and exit arrangements, 2019.
[21] This includes the costs and benefits of also protecting 50% of suppliers' government scheme costs.

consultants we commissioned to investigate this and based on CMA figures). Therefore, we now consider that a blended figure of 9.6% more accurately reflects this cost.[22]

3.11. Using this revised figure, our analysis shows that the 50% proposal would have a net cost of £1.1bn to £1.3bn over 10 years making the same assumptions as we did in our original draft Impact Assessment.[23]

3.12. In addition to the direct impact on consumer bills of this policy, we are concerned with the possible impact on competition. The cost of insuring credit balances would be far greater for smaller suppliers than for larger suppliers who can access protections and capital more cheaply. This could have two impacts:

- **Raise barriers to market entry.** Responses to our original consultation indicate that many suppliers may not have entered the market if they had to burden the cost of protecting credit balances they would eventually be owed back by their customers.

- **Reduce product choice and consumer benefit.** Responses to our consultation also indicate that the costs of protecting credit balances were such that suppliers may stop offering products which rely heavily on credit balances – such as the fixed DD payment method. This is concerning as this payment method is used by most GB consumers and we consider that it brings benefits for both consumers and suppliers (summarised above in chapter 2). We consider the fixed DD model a practical approach to supplying energy in the GB market, and our policy would have penalised suppliers offering this payment method.

3.13. In summary, the 50% proposal would deliver benefits in ensuring suppliers bear the cost of their own risk but requiring suppliers to protect a fixed proportion of their

[22] Based on analysis conducted by external consultants for Ofgem in early 2020, pre-covid. This analysis was based on cost of capital estimates made by the CMA in 2015. We applied midrange estimates for large, medium, and small suppliers: 8.5%, 12%, 20% respectively. We weighted these according to market share of suppliers to reach a market cost of capital figure of 9.6%. Net cost range between 10-40 SoLRs over 10 years. This is explored in more detail in appendix 1.
[23] In our original draft Impact Assessment we found a policy net cost of £16.1m.

credit balance liabilities is unlikely to be cost-effective. This is because it represents an unavoidable and continuous cost even when there are no supplier failures.

3.14. To demonstrate this, we have also assessed how much our original proposal to protect 50% of credit balances would have cost had it been in place in 2018 and compared this with the status quo: protecting credit balances via the existing SoLR process.

3.15. In 2018, eight suppliers exited the market via SoLR, costing £1.16 per GB consumer.[24] If all suppliers had been responsible for insuring all their credit balances individually, we estimate it would have cost around £8.60 per GB consumer.[25] This would have resulted in an average domestic consumer bill increase of around 1%. Our original 50% proposal would have reduced, but not avoided this cost and it would still have been far more expensive than the existing SoLR process. Our analysis shows that for 2018 our 50% proposal would have cost around £4.88 per GB consumer.

3.16. We therefore consider that the mutualisation of credit balances represents **the most cost-effective way of protecting customers credit balances when a supplier fails.**

3.17. That said, we consider we can do more to require suppliers to manage their costs more effectively and minimise the extent to which we rely on mutualisation to cover the costs of protecting customer credit balances.

Table 1: Assessment of our 50% proposal against objectives

Objective	Assessment
Minimise likelihood and extent of costs to be mutualised in the event of failure in the most cost-effective way.	As set out, protecting a fixed proportion would reduce the costs at risk of mutualisation. However, it would represent a significant additional cost on all suppliers that makes a cost-effectiveness case hard to make compared with the current SoLR regime.

[24] Of the eight failures there were six levy claims. The figure shown is the total cost, per GB consumer, of the credit balances mutualised – excluding other mutualised SoLR costs.
[25] This assumes that all suppliers in the market had protected 100% of their maximum credit balance position at a market protection rate of 9.6%.

Objective	Assessment
Encourage robust business practices.	As a fixed proportion policy is a blunt tool it does not provide much incentive on suppliers to improve their operations, particularly their billing system.
Suppliers bear an appropriate share of the cost of the mutualisation risk they pose to the market.	Our original proposal would require suppliers to protect both the credit balances they need to serve their customers and surplus credit balances. While this would shift more of the risk onto individual suppliers and away from the market as a whole, it would do so at a significantly increased cost to consumers, which may not be proportionate to this particular element of the problem we are seeking to address.
Does not unduly hamper good practice, market entry, innovation, and growth.	As set out above, we would be concerned that the cost associated with a fixed proportion policy would reduce market entry and innovation. We would also be concerned that suppliers withdraw the products which would have a negative effect on consumers.

4. Options

Chapter summary

We are proposing two new requirements that target surplus credit balances. These are i) an autorefund of any credit balances above £0 at the end of each contract year and ii) the implementation of a credit balance threshold which would require suppliers to protect any credit balances that exceed the threshold but allow them to hold, cost free, the credit balances they require to serve their customers.

Questions

Autorefund:

Question 4: Do you agree that autorefund of credit balances above £0 at the end of 12 months should not be tied to receiving a meter reading from the customer?

Threshold:

Question 5: Do you agree that suppliers operating a payment in advance business model should face the cost of the risk they pose to the market?

Question 6: Do you agree with the obligation and compliance approach for thresholds as outlined?

Question 7: Do you agree that there should be tolerances around the threshold and how do you consider these should be set?

Question 8: For suppliers: For your fixed direct debit customers what is the average percentage difference between estimated annual bills and actual annual bills for those accounts that ended with a positive credit balance?

Question 9: Please provide your view on the credit balance threshold model published alongside this consultation. Do you agree:

a. With the methodology we have used to calculate surplus credit balances in our draft threshold model?
b. That our threshold needs to reflect that consumers who start at different points of the year have different credit balance requirements?
c. That our model methodology accounts for the impact of contract start date on our threshold?

Implementation:

Question 10: Do you agree that these measures should apply only to domestic consumers?

Question 11: Do you agree with the proposed implementation timings?

Summary of options we are now considering

4.1. Our further work has considered if there is a more proportionate way to reduce credit balances at risk of mutualisation and the market distortions caused by suppliers' access to free working capital. In doing so, we want to avoid imposing undue additional costs on suppliers already managing their finances in a responsible manner.

4.2. Our analysis shows that surplus credit balances, over those which are required to service winter debt, are particularly distortive. Suppliers should not be allowed to collect more of their customers' money than is required and if they do, they should face a cost for the risk this represents to the rest of the market.

4.3. We propose that a combination of interventions are required to address the issue of surplus credit balances in the market. These are:

1. a requirement for suppliers to refund any credit balances above £0 at the end of each contract year– an "**autorefund policy**", and

2. a requirement which limits the amount of credit balances suppliers are permitted to hold and reinforces existing requirements for suppliers to set accurate direct debits – a "**threshold policy**".

4.4. We consider that an autorefund policy would be an effective measure to help address this issue and would bolster existing SLCs that cover the setting of direct debit levels and credit balance refunds as:

- it very precisely targets surplus credit balances,

- it would be a clear and easily understandable new consumer protection which is relatively simple to implement and monitor against, and

- it would return money to consumers.

4.5. However, autorefund alone is unlikely to go far enough as individual credit balances within the year could be in surplus up until the end of the contract year. The cumulative effect of this is that, even with autorefund in place, a supplier could hold surplus credit balances in aggregate. This presents particular risks over the autumn and

winter months when credit balances are highest and when other regulatory obligations fall due.

4.6. We consider a threshold policy that would limit credit balances throughout the year to no more than what a supplier requires to serve their customers will address the risks that autorefund alone cannot.

4.7. As such our preference is to introduce a combination of our policy options to maximise the effectiveness of our intervention.

Scope

4.8. We are proposing to apply both policies to domestic customer accounts, which are in credit and are paying by the fixed DD payment method. Fixed DD customers typically accrue higher credit balances than other payment methods and only domestic customer credit balances can be mutualised through our SoLR levy.

4.9. We do not propose additional rules relating to closed customer accounts noting the current requirement to refund closed account credit balances within 10 working days of issuing the final bill.[26] We expect suppliers to comply with existing licence requirements to take all reasonable steps to bill customers within six weeks of a supplier transfer or other termination of contract and expect suppliers to meet their obligations to treat customers fairly by returning credit on closed accounts in a timely manner.[27]

4.10. We are not proposing to introduce these new requirements for non-domestic consumers. Non-domestic customer credit balances are not mutualised when a supplier fails and stakeholder responses to our previous consultation argued that non-domestic customer credit balances were proportionally lower than domestic credit balances due to how closely customers managed their accounts.

[26] See the Electricity and Gas (Standards of Performance) Statutory Instrument, 2019
[27] See SLCs 27.17 and 27.18 here: Ofgem, Electricity Supply Licence; Ofgem, Gas Supply Licence

Implementation

4.11. We are proposing to allow a short extension of one-month to our statutory implementation period of 56 days to give suppliers time to adjust their systems and processes and, where required, set up appropriate protections.

4.12. In response to our proposals to require suppliers to protect a fixed 50% of their customer credit balances, most stakeholders agreed that a three to six-month implementation period was too ambitious. Many stakeholders suggested that an implementation period of one year would be needed, while others thought that up to two years would be required to allow businesses adequate time to adjust their business models and cash flow arrangements to reflect the new requirements.

4.13. As we are proposing that suppliers protect or refund only those credit balances that are not required to supply their customers, we consider a shorter implementation period may be appropriate. This would bring benefits to consumers at an earlier stage.

4.14. We understand that some of the facilities set out in our menu of protections can take up to three months to put in place. As such, it may be appropriate to give suppliers a short extension to the statutory implementation period.

4.15. We are also cognisant of the fact that suppliers may need time to set up the various processes required to achieve compliance with the policy, for example refunding current surplus credit balances and amending systems and processes to ensure surplus credit balances can be identified and/or avoided in future.

4.16. Suppliers operating a payment model where payment is taken in advance of consumption will be particularly impacted by our policy (the rationale for this is set out below). As such, we welcome views as to how long an implementation period may be required to effectively manage the impacts that this change would be expected to have on these suppliers.

Autorefund option

Overview

4.17. We are proposing to introduce a requirement for suppliers to refund any surplus credit balances held by a supplier at the end of each contract year.

4.18. By definition, any credit balance above £0 at the end of a 12-month contract (taking account of both all 12 fixed DD monthly payments and all the consumer used within the year) is surplus to the requirement to serve that customer. Therefore, this policy would reduce surplus credit balances and so the amount of credit balances at risk of mutualisation.

4.19. As set out in chapter 2, existing SLCs require suppliers to set fixed DDs so that energy accounts trend to £0 by the end of each contract year.

4.20. By requiring the refund of credit balances above £0, it strengthens existing SLCs by acting as a failsafe. We recognise that there are reasons why a fixed DD could be set too high resulting in a credit balance greater than £0 at the end of 12 months – for instance estimation errors. However, by at least the end of each contract year, we consider that suppliers should have sufficient information to calculate how much energy the customer has used, and should then be able to work out if, and by how much, the customer has overpaid for energy in that contract year. Any overpayment, or surplus, would be returned to the customer, resetting their balance to £0. We would expect many suppliers to be doing this already to prevent a roll-over effect of credit balances growing year-on-year.

4.21. By making this process a requirement within the supply licence we would be ensuring that all consumers benefit from this consumer protection.

4.22. This is also a good opportunity for the supplier to re-estimate the adequacy of their customers' fixed DD payments to avoid surplus credit balances building up over the next contract year. Though we note that greater accuracy could be achieved by assessing the adequacy of a customer's DD payment more regularly throughout the year, which we understand many suppliers already do.

4.23. We are aware that some consumers may prefer for their energy account to be in credit. However, we consider that the negative impact that in aggregate surplus credit balances can have on the market are such that all surplus credit balances should be refunded to customers. We therefore do not propose to allow a derogation from this obligation.

Design considerations for autorefund

How and when to calculate the autorefund

4.24. To ensure the calculation of the autorefund is accurate it must take account of all 12 of the fixed DD monthly payments and 12 months' worth of energy the consumer used in the year starting from the Supplier Start Date (**SSD**).

4.25. Suppliers offering fixed DD tariffs either operate a payment in advance or payment in arrears business model and both create complexity when calculating what the autorefund should be:

- **for suppliers operating payment in advance:** the full year of consumption from SSD will finish one full month **after** the 12th monthly DD payment has been (the full year of consumption finishes just before the 13th monthly DD payment is made), and

- **for suppliers operating payment in arrears:** the full year of consumption will end just **before** the 12th monthly DD payment is taken.

4.26. To account for both models, suppliers must make the calculation once they have received the 12th monthly DD payment and the full 12 months of consumption has occurred. Only 12 months of consumption and 12 monthly DD payments should be used to calculate the customer's refund. Suppliers should not be able to net-off the cost of any consumption from the following year to reduce the size of the autorefund – a particular risk with payment in arrears.

Proposal for calculating autorefund

Autorefund (AR) = Payment (P) – Consumption (C)

AR only occurs if the calculation results in a number greater than £0

P = the total of all 12 monthly payments

C = 12 months/365 days of consumption from SSD

4.27. We consider that suppliers should be obligated to make this refund within 10 working days of the anniversary of the payment start date. By this point, for either the payment in advance or payment in arrears model, both the full 12 months of consumption will have occurred and all 12 DD payments will have been made.

Meter readings

4.28. We do not propose to link the refund of surplus credit balances to a supplier gaining a meter read.

4.29. We appreciate that an inherent complexity in the energy retail market is that, at least until smart meters are fully rolled out, suppliers may rely to some extent on estimations of meter readings to set direct debits and bill customers. We accept that this is a challenge for suppliers and they may be reluctant to refund monies if they are concerned they will have to correct this later, on receipt of a meter reading, if the customer had used more energy than estimated.

4.30. However, the autorefund policy would place an obligation on suppliers to refund any credit balance above £0 at the end of each year. Suppliers are already required to take all reasonable steps to obtain accurate meter readings at least annually, and we know that many suppliers obtain meter readings more frequently than this from their domestic customers.[28]

4.31. Furthermore, we also consider that as smart meters are rolled out, not only does this mean that bills for consumers with smart meters should be more accurate but also bills for all of a supplier's customers. This is because we would expect suppliers to use data from their customers with smart meters to refine their estimation models which they use to base DD calculations on.

4.32. We would therefore propose that, if suppliers are receiving fixed DD payments from customers based on estimated meter readings, then they should be able to refund surplus credit balances on this basis also.

[28] Please see SLC 21B.4 of the Electricity Supply Licence, and SLC 21B.4 of the Gas Supply Licence here: Ofgem, Electricity Supply Licence; Ofgem, Gas Supply Licence.

Impact

4.33. An autorefund obligation would not stop suppliers from collecting a surplus credit balance throughout a contract year. This means that an individual credit balance on an account could be far higher than it would need to be until the contract year ends, at which point it would be refunded. In other words, the autorefund policy would not correct the shape of credit balances throughout the year.

4.34. However, industry switching data shows that switching is relatively consistent throughout the year with small peaks in April/May and September/October.[29] Therefore, we expect suppliers will have a roughly equal distribution of contract start dates across the calendar year; and so in each month a similar proportion of customers will be reaching the end of their contracts and accounts in surplus would be refunded. At the portfolio level our analysis indicates that this will result in a material reduction in credit balances compared to a supplier taking no action to reduce surplus credit balances at the end of each 12-month contract year.

Why further action may be necessary

4.35. As set out above, an autorefund policy would reduce surplus credit balances throughout the year and therefore reduce the risk of credit balances at risk of mutualisation.[30] However, the effect of the policy may not be sufficient to completely reduce surplus credit balances in the winter when the risk of mutualisation is the highest, or tackle purposeful risky behaviour. As such, additional measures may be required to tackle surplus credit balances.

4.36. Given the market distortions that surplus credit balances represent we consider it would be in consumers' interest to also set specific credit balance limits. In the section below we set out how this could work.

[29] You can access data on domestic customer switching on Ofgem's Data Portal here: Retail Market Indicators.
[30] This reduces the surplus credit balances that can be held by suppliers throughout the year, so if a supplier fails their credit balance portfolio is lower. We have identified c£590m – c£1.4bn of surplus credit balances which should reduce the credit balances available to be mutualised for an average supplier failure by c£2.6m – c£6.2m.

Threshold option

Overview

4.37. As outlined in the sections above credit balances are an intrinsic feature of the fixed DD model. A supplier needs to collect a certain amount of credit balances to cover their customers' underpayment over the winter months – their winter debt. To ensure that a supplier does not collect and hold credit balances greater than the amount required to serve their customers we propose to introduce a credit balance threshold (our "**threshold**").

4.38. Suppliers would be required to ensure that their customer credit balances, in aggregate, do not exceed the amount permitted by our threshold. Where the supplier chooses to hold credit balances above our threshold, they must protect these using a protection from our menu of protections:

- funds held in an escrow account on trust for relevant domestic customers with credit balances in their favour above the threshold, or
- a guarantee from a third party or parent company with a minimum credit rating of investment grade.

4.39. In principle, our threshold will permit suppliers to collect credit balances to the level required to service their customers' winter debt without facing any additional policy costs. Suppliers will face a cost for holding credit balances that exceed our threshold, as these would be surplus to the requirement to serve their customers.

Threshold design

4.40. We want our threshold to be as accurate as possible so that it allows suppliers to collect the revenue they require but no more. As such, we have developed our threshold model so that it adjusts for the factors which can lead to variations in the aggregate credit balances held by a supplier:

- the month in which the supplier's customers start their contract,
- the annual consumption of the supplier's customers, and

- the prices charged by a supplier.

4.41. We are also proposing that our threshold is applied to credit balances net of unbilled consumption. This is because this more closely reflects the actual credit balances of the supplier's customers and amount that would be mutualised if the supplier was to fail.

How our threshold works

We propose to introduce a *relative* threshold. This means that the actual £ value of the threshold will adjust from supplier-to-supplier and reflect each supplier's portfolio of customers in terms of consumption and price.

Using data returned to us as part of our RFI last year we have been able to model what the credit balance should be in each month of the year as a % of the annual bill if an account's balance is to trend to £0. Our model is published as an appendix to this consultation.

In any given month, the threshold is applied by multiplying the sum of the supplier's customers' estimated annual bills (**EAB**) for fixed DD customers by the relevant threshold. The result of that calculation is the total credit balance the supplier would be permitted to hold in that month.

For example, a supplier with an expected aggregate fixed DD EAB of £100,000 and a monthly threshold for that month of 10% then the supplier would be able to hold credit balances up to £10,000 in that month at no cost and anything above £10,000 would need to be protected.

A relative vs market average threshold

4.42. As set out in the box above, we are proposing to set our threshold using a relative methodology, ie it is a percentage of an estimated annual bill. The alternative would be to use a market average approach. This would set a pound amount limit that credit balances cannot exceed for each month of the year based on the average credit balance for all fixed DD customers for each respective month. While this alternative may be

slightly simpler compared with our proposal, it would be less accurate and would not adjust for differences in suppliers' customer bases in terms of consumption or tariffs.

4.43. Our proposed relative threshold is more accurate but it may be slightly more complex both for suppliers to implement and for Ofgem to monitor. However, we do not think this complexity is unreasonable or should represent too great a burden as the only calculation required is for suppliers to apply our threshold percentages to their customers' EABs. As a customer's EAB is a key data point for any supply business, we expect this to be reasonably simple for a supplier to implement.

4.44. Furthermore, as the threshold represents the level of credit balances required to serve a supplier's customers, and we expect suppliers to set direct debits accurately already, we do not anticipate that suppliers with existing robust processes will need to drastically change their approach to managing their customer accounts.

4.45. We welcome views about how complex this type of threshold will be for suppliers to apply and for any data or information suppliers can share on likely implementation costs.

Accounting for the impact of contract start dates

4.46. We also propose to set our threshold to account for the impact the contract start date has on a customer's credit balance requirement.

4.47. We understand that customers starting in the spring and summer will accrue higher credit balances than those customers who start their contracts in the autumn and winter. This is because customers starting their contract in the autumn and winter months typically spend most of their contract year in debit before then trending back towards £0 towards the end of the 12-month period. Customers starting in the spring and summer will build up a large credit balance before then trending back towards £0 towards the end of the 12-month contract.

4.48. If we set our threshold based only on consumers starting in the spring who spend most of the year in credit and build up the largest credit balances, it would result in the threshold being set too high. The opposite would also be true. Setting our threshold to reflect the credit balance requirement for a consumer starting in the winter would not allow sufficient money for suppliers.

4.49. Therefore, we propose to account for contract start date when setting our threshold. This means that our threshold will be more reflective of the true level of credit balances that a supplier needs to serve all of its customers.

Tolerances

4.50. We are mindful that even at an aggregate level customer consumption does not always follow a perfect curve. A customer's consumption in any month could vary depending on a number of factors such as the weather or an individual customer's circumstances. To address this, we are considering setting tolerances which would allow a supplier to hold credit balances slightly greater than our threshold without breaching their licence obligation.

4.51. As far as possible, when setting prescriptive rules, we want to remove subjectivity from our considerations. Initially we are proposing to set a tolerance within our model methodology. For example, if one of our thresholds was 2% of the estimated annual bill, and the tolerance was +0.5% then the threshold would be 2.5%. We consider this would result in a clearer obligation on suppliers so they know exactly what is expected of them and, for Ofgem, would enable Ofgem to assess suppliers' compliance more easily.

4.52. However, it is imperative that the tolerance is reasonable and does not allow suppliers an "out" to over-collect credit balances. It must as accurately as possible reflect the uncertainty that suppliers face in setting direct debits accurately resulting from the factors set out in paragraph 4.50. With these points in mind, we are keen to understand from suppliers what they consider would be an appropriate approach to setting the tolerances.

4.53. As an input to this we would also welcome data from suppliers on their average error rate (as a percentage) on typical fixed DD accounts at the end of 12 months that have a credit balance (ie are an account balance above £0).

Treatment of payment in advance of consumption

4.54. Several suppliers in the market currently opt to take payment from their customers in advance of consumption. This gives suppliers access to the capital required to supply their customers before the customers have consumed any energy. Therefore, these suppliers receive a working capital benefit as they do not have to raise these funds via equity or debt on the commercial markets and face the cost of capital for this.

4.55. This business model leads to higher credit balances for customers of these suppliers by one month's worth or 8.33% of the EAB. As such, it is very likely that suppliers operating in this way will have surplus credit balances.

4.56. An impact of our threshold policy is that any credit balance above the threshold will need to be protected and therefore suppliers operating payment in advance will face a cost. We consider this will reduce the potential impact on the wider market when a supplier operating this model fails. We consider it appropriate that those suppliers gaining an additional working capital benefit, which is also at risk of mutualisation, should face the costs of this risk.

Obligation and compliance

4.57. There are broadly two options for introducing a credit balance threshold:

1) **a single annual obligation:** suppliers would need to forecast their credit balance position for the max point of the year (October) and put protections in place to cover the amount by which they expect to exceed the threshold, and

2) **a regular obligation:** a requirement for suppliers to demonstrate compliance with different thresholds throughout the year. We are considering a number of options for setting a more regular obligation, including:

    a) **monthly thresholds**: which represent the amount of credit balances that a supplier can hold in each calendar month. These would be set out in the licence and suppliers would be required to comply with the relevant threshold in each month, and

    b) **milestone thresholds**: which represent the amount of credit balances that a supplier can hold at key milestones each year. These may include the summer, the max point in October, and the end of winter.

4.58. In the case of regular obligations we expect that reporting would be risk based and done in retrospect. For example, we may only request a supplier to report on their compliance with the thresholds where we have reason to believe that they are not

managing their credit balances correctly. We would request this data only after the supplier has had time to work out what their credit balance position was at the threshold date.

4.59. We propose to require suppliers to comply with more regular thresholds throughout the year. We consider that this has the following benefits over an annual obligation:

- **administrative burden:** an annual obligation would require suppliers to forecast their max position at the start of the year. This would be highly resource intensive. We consider this would be burdensome for both suppliers and Ofgem, and would be subject to gaming risks – ie the supplier could easily inflate their estimates at the start of the year (which would increase their threshold) and put this down to error. With a regular obligation, suppliers will have a better understanding of their credit balance position and will not need to forecast their credit balances months in advance – which could be inaccurate. This also means that each supplier will be required to assess the accuracy of their customers' accounts on a regular basis and act where required. We consider that this activity will closely align with existing financial management around billing and monthly account reconciliation and as such should not present too large an additional undertaking for suppliers.

- **early intervention:** requiring suppliers to comply with more regular thresholds will enhance Ofgem's ability to intervene early when we suspect a supplier has breached their credit balance limit. This is because we will have a clear case to act where a supplier's credit balances are reported to be greater than their threshold.

- **cost:** by requiring suppliers to meet their obligation within the year – rather than having to put in place protections at the start of the year to cover off their maximum position – suppliers can protect surplus credit balances closer to, or after, the date these credit balances are collected (depending on the final policy design). This means that suppliers using the escrow facility to protect their surplus credit balances may not need to pay a cost to raise the funds to be protected in the escrow account.

Unintended Consequences

4.60. As our proposed threshold is based on suppliers' EAB for fixed DD customers, a potential unintended consequence could be that a supplier is incentivised to inflate their customer EABs, thereby increasing their threshold, to give themselves a greater credit balance limit.

4.61. However, we think that the risk of a supplier doing this is low – as doing so would negatively impact the supplier's ability to operate their business. This is because EABs are based on estimated annual consumption in electricity and annual quantities in gas. Both are vital data points upon which suppliers base their business activities – such as forward purchasing of energy and balancing and settlement charges.

4.62. As such, to create different consumption data to drive credit balance calculations from that which is used to run nearly every other part of a core supply business would seem both challenging and risks breaching the licence. Suppliers must set direct debits based on the best available information. To set an accurate direct debit a supplier must accurately estimate a customer's annual bill.

4.63. Furthermore, in the event that a supplier has overestimated its customers' EABs, resulting in those customers overpaying, our autorefund policy will require this overpayment to be returned to the consumers. Under existing licence conditions customers are still able to request a refund themselves.

Summary of our proposed options

We are proposing to introduce a requirement for suppliers to refund any domestic consumer credit balances above £0 at the end of each 12-month contract year.

In parallel, we are proposing to introduce a limit to the level of customer credit balances that suppliers are permitted to hold by introducing a credit balance threshold. Suppliers will be required to protect any credit balances that they hold above our threshold using a protection from our menu of protections (set out in appendix 4). Our proposals include:

- **Relative threshold:** we intend to set a threshold which is relative to each supplier's total EAB from their fixed DD customers.
- **Contract start date**: we intend to set a threshold which reflects the fact that a customer's start date will impact the level of credit balances a supplier holds for its entire portfolio of domestic fixed DD customers.
- **Payment in advance:** we intend to set a threshold which does not make allowances for suppliers collecting payment in advance
- **Compliance**: we intend to require suppliers to demonstrate compliance against the threshold on a regular basis throughout the year.

Implementation

We are proposing to allow a short extension of one-month to our statutory implementation period of 56 days to give suppliers time to adjust their systems and processes and, where required, set up appropriate protections.

Scope

- These proposals will apply only to ***domestic DD customers*** with accounts in ***credit***.
- We intend to apply this policy to credit balances ***net of unbilled consumption***.
- This policy ***will not*** apply to closed customer accounts or non-domestic customer accounts.

5. Assessment

Chapter summary

Our proposals would have a net benefit for consumers, driven by the fact they would reduce the amount of credit balances at risk of being mutualised when suppliers fail, therefore reducing mutualisation costs consumers may face. They also incentivise suppliers to return surplus credit balances to consumers thereby delivering further consumer benefits. Suppliers will face a cost if they opt to protect their surplus credit balances but would be permitted to hold, cost free, the credit balances they require to service their fixed DD customers.

Questions

Question 12: Do you agree with our assessment of the costs and benefits of our proposals as set out in chapter 5 and appendix 1?

Question 13: What implementation costs do you think suppliers will incur should we progress both our autorefund and thresholds proposals? Please detail both the category of cost as well as your estimation of cost figures.

Overview

5.1. We consider that both our proposed policy interventions, "autorefund" and "threshold", will address the market distortion described in chapter 2 and as such will deliver benefits both to the market and consumers directly.

5.2. As we set out in the section above on our previous 50% proposal, the direct costs to suppliers and therefore consumers of introducing this measure would have been disproportionate to the benefits it would have delivered in terms of avoided cost mutualisation. We consider that our new proposals strike the right balance between addressing the distortive impact credit balances can have on the market while not placing an unduly high cost on consumers.

5.3. To set out the case in further detail, we have assessed our options against the objectives for our project as outlined in chapter 1. Where helpful, we have also

compared these against our original 50% proposal. In appendix 1 we set out a more exhaustive detail all the categories of costs and benefits; below is a summary of the key points.

Reduce mutualisation in a cost-effective way

5.4. As set out in chapter 1, we want to reduce credit balances at risk of being mutualised when a supplier fails but want to make sure that our solution is proportionate to the distortive impact of credit balances on the market.

5.5. We consider that our proposals will reduce the level of credit balances in the market to only those required by suppliers to service their customers. We believe that targeting surplus credit balances, which we consider to be particularly distortive, is a more proportionate way forward.

Costs

5.6. In terms of cost, as we are not targeting both surplus credit balances and credit balances suppliers require to service their customers, we do not think our policy should represent a direct cost to suppliers to implement. Suppliers would still be permitted to hold, **cost-free,** the credit balances they **require** to service their customers. As such the main cost they will face is the opportunity cost of no longer having access to surplus credit balances.

5.7. Suppliers will face some implementation costs from changing billing systems to identify surplus credit balances. However, again we consider that responsible suppliers should already have systems in place to control credit balances. Autorefunds may result in the processing of a greater number of refunds to customers, but we consider this is similar to activities that suppliers already undertake and therefore likely to be low-cost. We would be keen for stakeholder thoughts on both these assumptions.

Benefits

5.8. We have used data from our RFI and modelled what we consider credit balances should be if they were to be set for all accounts to end at £0 and compared this to what credit balances actually were. This showed us that the market currently holds a significant amount of surplus credit balances, between £590m to £1.4bn at the maximum credit balance point in October, depending on how we design the threshold.

5.9. Our proposals have two key benefits:

1. **In line with our objective, they significantly reduce the amount of credit balances at risk of mutualisation.** Assuming an average supplier failure,[31] this would result in a reduction of £6m per SoLR. If we assume there are another 10 – 40 SoLRs over the next decade that means there would be a net benefit, in terms of avoided mutualisation, of £54m – £216m.[32]

2. **They would return money to consumers that is not required to meet energy costs which can then be spent in the wider economy.** This could equate to between £590m - £1.4bn going back to consumers, or at least £440m – £1.26bn going back to consumers under our autorefund policy.[33]

If we compare this to our original 50% proposal, the latter would have reduced credit balances at risk of mutualisation to a greater extent. However, while this would have reduced mutualisation costs that suppliers (and ultimately consumers) face, it would have imposed a much higher cost onto suppliers, in excess of £1.3bn. Suppliers would not be able to avoid policy costs by operating sensible business models and suppliers reducing their credit balances would still face a policy cost – even if those credit balances were required to serve their customers.

Therefore, we consider the net case for our new proposals to be much stronger.

Encourages robust business practices

Preventing suppliers from financing below cost tariffs using customer credit balances

5.10. Our proposal will restrict the level of customer credit balances that a supplier can hold to only those credit balances required to serve a customer, which means that

[31] We have assumed an average supplier failure of 77,000 customers with above average customer credit balances, and that the appointed SoLR(s) in these cases claim the costs of honouring all domestic customer credit balances back through the SoLR levy. While individual SoLR events may vary dramatically from case to case – we expect that the after several SoLR events our figures will average out.
[32] Net benefit is based on a weighted threshold and assumes that suppliers do not hold surplus credit balances and so only face the opportunity cost of foregoing the working capital benefit these surplus credit balances had previously brought.
[33] £590m – £1.4bn would go back to consumers if all suppliers opted to reduce their credit balances to below our threshold level. This is based on the credit balances held by the whole market in October 2018.

suppliers cannot hold surplus credit balances without facing a cost. This will restrict suppliers' ability to use credit balances to subsidise loss-making business models. In response to this cost, we expect that suppliers will start to price more sustainably.

5.11. However, our policy only partially addresses the issue of the distortion arising from free working capital in the market. As set out in our links and dependencies section in chapter 1, we consider that further changes in relation to the RO (either through changes to the scheme itself, or further licence changes) plus the other measures we've introduced as part of our Supplier Licencing Review will, together, address this distortion.

Incentivising more accurate billing

5.12. Our proposals will incentivise suppliers to adopt better billing practices to ensure they only hold credit balances that they require. Suppliers holding surplus credit balances would face additional costs for doing so and so they will be incentivised to reduce the level of credit balances held – in particular, those credit balances held because of billing errors.

5.13. Better processes may include more regular direct debit adequacy assessments, more regular billing to reconcile accounts, more regular meter reads, and better methodologies for calculating Estimated Annual Consumption and Annual Quantities, and further investment in the roll out of smart meters.

Our original proposal would have had a greater impact on preventing suppliers from financing below cost tariffs but as set out we do not consider it proportionate. With regard to more accurate billing, our original proposal would have provided little incentive as it would have been impossible for suppliers to completely avoid the 50% requirement, so even if they reduced their credit balances they would have always required to protect 50%. As suppliers can avoid policy costs completely under our proposal the incentive to improve practices is stronger.

Ensure that suppliers bear an appropriate share of the cost of the mutualisation risk they pose to the market

5.14. In chapter 2 we set out how credit balances are intrinsic to the fixed direct debit model and, providing a supplier does not collect surplus balances, the amount they collect should balance to £0 over the year. When this occurs the amount of revenue a

supplier gets from a fixed DD customer would be the same as from a variable direct debit, or standard credit customer on the same terms; although the latter would not have a credit balance (as each month, after charges are paid the account should be at £0 rather than that happening over the course of the year).

5.15. We consider that our proposals will significantly rebalance risk from all suppliers onto those that are engaged in poor practices.

5.16. We would expect suppliers to take appropriate and risk mitigating action to minimise the risk of mutualising any costs across the market on failure. Reforms we've introduced as part of the Supplier Licensing Review will raise standards in the market and, along with this proposal and reforms in relation to RO costs, will lower the likelihood and scale of future cost mutualisation.

5.17. The alternative is to make suppliers responsible for all or a fixed proportion of the risk they pose. As set out above, we consider that any cost mutualisation is distortive but our SoLR process is the most cost-effective way of protecting consumers. It is only used if the SoLR does not agree to forgo the possibility of making a claim on the SoLR levy for credit balances (which is not always the case) and spreads the cost across GB consumers.[34] Any alternative that would require individual suppliers to insure against their own risk, could place a higher cost on both suppliers and ultimately consumers.

Our original proposal would have put 50% of the cost of a supplier's credit balance risk onto the supplier. This would have shifted more of the risk onto individual suppliers and away from the market as a whole. However, we do not consider this to be the most cost-effective way of protecting consumers from the impact of supplier failure. This policy would have levied an unavoidable ongoing cost on suppliers and, as such, may have resulted in price rises for consumers. Our analysis shows that while it would have had benefits in terms of reducing mutualisation costs and associated competition benefits from exposing individual suppliers to the costs of their own risk, it would have been around five times more expensive than our revised proposals.

[34] Any claim is closely scrutinised by Ofgem

Ensure that costs do not unduly hamper good practice, market entry, innovation, and growth

5.18. Our proposals should impose only minimal costs on suppliers already following best practice, complying with existing licence conditions regarding billing practices and controlling the size of their customers' credit balances. Suppliers will be able to collect enough credit balances to hedge appropriately and pay operational costs. Suppliers will only be impacted where they previously held and used surplus customer credit balances to support their business.

5.19. We therefore consider that our proposals will not hamper those pursuing best practice, market entry, innovation or growth and therefore more fully meet this objective compared to alternatives.

Our original proposal would have placed a high cost on suppliers. Feedback to our original consultation from small and now established mid-tier suppliers indicates that this may have been so high as to make market entry unviable. Furthermore, the costs were such that those already in the market offering fixed DD products may have had to stop offering this payment method. This is concerning because it is used by the majority of consumers and brings considerable benefits from smoother high winter costs across the year. Our new proposal should not render the fixed DD model unviable.

Appendices

Index

Appendix 1: Assessment of costs and benefits

Questions

Question 12: Do you agree with our assessment of the costs and benefits of our proposals as set out in chapter 5 and appendix 1? (this question is also asked at chapter 5; please answer once)

Question 14: Do you agree:

a. We should account for cost of suppliers using parent company guarantees in our assessment of working capital

b. With our approach to applying the cost of third part guarantees to surplus credit balances

1. We expect that both of our proposals – which target surplus credit balances – will have a net benefit for consumers. This is because we do not expect that suppliers will face a high direct cost to comply with our policy. Instead we expect that most suppliers will face only the opportunity cost of forgoing the working capital benefit of holding credit balances not required to service their customers winter debt.

2. Additionally, we expect that consumers will benefit from around £54m - £216m of avoided mutualisation over the next 10 years and receive at least £440m - £1.26bn in credit balance refunds in the policy's first year. After the first-year policy benefits come mostly from avoided mutualisation.

3. In this analysis we have used the thresholds from our threshold model (see attached in appendix 2). We recognise that the consumption data from April 2018 – March 2019 may be slightly atypical of a normal supply year. This is due to the impact of the 'Beast from the East' severe weather event in early 2018.

4. To account for this, and get an accurate view of potential costs, we have adjusted our thresholds in this analysis to reflect the level that our threshold may reasonably be set at once further analysis can be completed with a larger dataset. In particular we have reduced the maximum annual threshold from 13.4% to 12.6% to account for higher than expected consumption in April 2018.

Background on supplier failure mechanics

5. It is important to understand the mechanics behind supplier failure as the costs that consumers may face, and the possible benefits derive from these.

6. Supplier market exits largely fall into two broad categories – orderly market exit and disorderly market exit.

7. An **orderly market exit** occurs when a supplier exits the market through a commercial arrangement such as merger or trade sale. Generally, these commercial arrangements should ensure that the exiting supplier meets all its obligations and the burden on the market is minimal. An orderly market exit is our preferred mode of market exit.

8. A **disorderly market exit** will occur when a supplier is unable to come to a commercial or solvent arrangement to facilitate its exit from the market. A disorderly market exit is often characterised by:

- unpaid charges to networks and other market participants,
- failure to discharge government scheme obligations, and
- the possible mutualisation of regulatory costs.

9. In these cases, we will step in to protect consumers by using our powers to appoint a Supplier of Last Resort (SoLR) (often referred to as a 'SoLR process') or through implementing a Special Administration Regime (SAR).[35] Crucially, both processes ensure that the failing supplier's customers remain on supply and that domestic customer credit balances are protected.

[35] The SAR is a process whereby the government would step in and operate the failed supplier while it is wound up in an orderly way. This process is generally reserved for the largest suppliers or special circumstances where a SoLR would not be appropriate.

10. Ofgem appoints a SoLR by issuing them a direction to take on the customers of the failed supplier.[36] The appointed SoLR may make a claim for a Last Resort Supply Payment (overwise known as a SoLR levy claim) to recover any additional costs incurred – this includes domestic customer credit balances.[37]

11. Costs and market impacts associated with disorderly market exit generally consist of quantifiable mutualised costs and harder to quantify wider costs.

12. **Mutualised costs:** include regulatory costs of the SoLR process claimed by the appointed SoLR using the SoLR levy (including customer credit balances should they choose to make a claim for these and should we approve that claim) and mutualisation mechanisms built into government schemes and policies.[38]

13. **Wider costs:** include unpaid network and service charges or other outstanding debt owed to creditors – typical of most insolvencies.

14. Mutualisation of a failed supplier's outstanding obligation under government schemes and policies are not claimed as part of the SoLR levy.

15. The SoLR levy is 'paid' by placing a levy on gas transporter and electricity distributors' Distribution Use of System charges. As such, costs associated with a supplier failure are mutualised across GB consumers.

Monetised benefits

16. Consumers benefit from avoided mutualisation costs in the event that a supplier fails and will receive an automatic refund of any surplus credit balances held by their supplier at the end of each contract year.

[36] Gas and Electricity Supply License SLC 8 and our SoLR Guidance published here: Ofgem, Guidance on supplier of last resort and energy supply company administration orders, 2016; Ofgem, Electricity Supply Licence; Ofgem, Gas Supply Licence
[37] Gas and Electricity Supply Licence SLC 9: Ofgem, Electricity Supply Licence; Ofgem, Gas Supply Licence
[38] Such as the Renewables Obligation, Feed in Tariff and Capacity Market.

Avoided mutualisation

17. Consumers benefit from avoided future bill increases associated with SoLR levy claims. The amount of potential mutualisation avoided depends on the number of suppliers who fail, the size of their customer credit balances and if the appointed SoLR decides to make a SoLR levy claim.

18. We estimate that our threshold proposal will have a net benefit of around £54m to £216m over the next 10 years. This is based on:

- Between 1 and 4 SoLR events per year over the next 10 years.
- An average SoLR of 77,000 customers with above average customer credit balances. This is based on the average size of previous SoLRs between the start of 2018 and March 2019, and our observations that failing suppliers tend to have credit balances which are greater than those of active suppliers when they fail.
- The appointed SoLR(s) claim the costs of honouring all domestic customer credit balances back through the SoLR levy.
- All suppliers choosing to reduce their customer credit balances to below the threshold limit rather than paying to protect surplus credit balances. See our cost section below for further details.
- Using our weighted threshold of 6.9% as the threshold for surplus credit balances.

19. We expect that our policy will also lead to more competitive SoLRs. Potential SoLRs may be more willing to waive their right to claim on the SoLR levy as the potential costs of surplus credit balances are covered by our proposals. This would further reduce the market wide cost of mutualisation. We discuss the impact of our proposals on the competitiveness of the SoLR process in paragraphs 36-39.

Money returned to consumers

20. Our proposals will incentivise suppliers to not collect more credit from customers than their customers are expected to use, and will ensure that any surplus credit

balances that are collected by the supplier throughout the year are returned to the consumer at the end of their contract year.

21. Each of our proposals will return different amounts of money to consumers and the final amount returned to consumers will depend on which option suppliers opt for to comply with our proposals.

22. **Autorefund:** we expect that our autorefund policy could return between c£440m (a low-case estimate) and c£1.26bn (a high-case estimate) to consumers. As our autorefund policy does not prohibit suppliers from taking payment in advance we have excluded these credit balances from this calculation.

23. To do this we have assumed that the majority of customers in the market pay in arrears of consumption. For the proportion of the market which pay in advance of consumption we have applied an adjusted threshold which accounts for the additional month of payment which would typically be held on these customers' accounts. To reiterate, our threshold proposal is to only implement a single threshold which is not adjusted to account for payment in advance customers – the methodology described here is employed, solely, to enable us to calculate the 'money returned to consumers' benefit of the autorefund policy.

24. **Threshold:** our threshold proposal will target all surplus credit balances, including those that arise due to the payment in advance model (a driver of surplus credit balances). Suppliers can either reduce the amount of credit balances they hold to ensure their aggregate position is below the threshold, or choose to protect credit balances that exceed it. The degree to which suppliers opt for the former will dictate the amount of money that is returned to consumers. If all suppliers opt to return credit balances above the threshold limit, this would result in £590m – £1.4bn being returned to consumers – an additional £150m on top of the £440m – £1.26bn returned under our autorefund policy. To reiterate, the compliance route that suppliers choose only affects the amount of money that we expect to go back to consumers. The benefits to consumers of avoided mutualisation set out above remain unchanged.

Hard to monetise benefits

25. Our proposals will address some of the market distortions caused by suppliers' access to free working capital, preserve the fixed DD model, and incentivise better billing practices. Our proposals could also lead to marginal benefits to our SoLR process.

Addresses the distortions caused by access to free working capital

26. Our proposals will restrict suppliers' access to free working capital that suppliers can currently use to finance below costs tariffs.

27. Our proposal will restrict the level of customer credit balances that a supplier can hold to only those credit balances required to serve a customer which means that suppliers cannot hold surplus credit balances without facing a cost. This will restrict suppliers' ability to use credit balances to subsidise loss making business models. In response we expect that suppliers will start to price more sustainably – allowing suppliers currently pricing at profit to compete in the market.

28. However, our policy only partially resolves this issue and without complementary reforms in relation to the RO we may continue to see adverse effects on competition.

Preserves the fixed DD model

29. The fixed DD model is very popular amongst consumers and also delivers consumer benefits, particularly the smoothing of energy costs thereby reducing high costs in winter and making energy costs more predictable which supports household budgeting.[39]

30. Responses to our 2019 consultation suggested that our proposals for suppliers to protect 50% of their credit balances would lead to some suppliers refusing to offer the fixed DD payment method to their customers.

[39] Data from Ofgem's 2019 Consumer Engagement in the Energy Market survey suggests that 79% of surveyed consumers paid for their energy using direct debits. We do not have data specifically for fixed direct debits. See page 16 of: Ofgem, Consumer Engagement in the Energy Market 2019, 2020

31. We agree that a requirement for suppliers to protect a fixed proportion of their credit balances will likely make the payment option too costly for some suppliers to maintain.

32. Since our 2019 policy consultation we have refined our policy so that suppliers only face a cost for surplus credit balances. We consider this will ensure that enough of a credit balance can be held – cost free – to ensure that fixed direct debits remain commercially viable.

More accurate billing

33. We consider that suppliers will be incentivised to put in place better billing practices and systems to ensure that they do not hold credit balances greater than the amount required to serve their customers. Suppliers holding surplus credit balances will face additional costs for doing so. Suppliers are therefore incentivised to reduce the level of credit balances to the level required to serve their customers.

34. Examples of better processes may include more regular direct debit adequacy assessments, more regular meter reads, better methodologies for calculating a customers Estimated Annual Consumption, further investment in the roll out of smart meters.

35. We expect that consumers will benefit from this incentive for suppliers to perform better and more efficiently to avoid costs.

More competitive SoLRs

36. We have identified possible minor benefits of this policy on the competitiveness of the SoLR process or the likelihood that suppliers will seek a commercial solution for market exit.

37. Bidding suppliers would have confidence that the credit balances will be at the non-surplus level which may mean that suppliers previously put off from bidding (due to the size of the credit balances) may now see becoming a SoLR as viable option. This may also encourage more commercial transactions when a supplier is looking to exit the market – which remains our preference.

38. The reduction in credit balances would mean suppliers would need to differentiate themselves with better bids in other areas of their bid, such as the tariff process or on-boarding plans.

39. As well as these competition benefits, the additional reporting and understanding of supplier credit balances that result from the policy may improve our ability to run SoLR processes effectively.

Monetised costs

40. Suppliers will face the opportunity cost of forgoing the working capital benefit of holding surplus credit balances and may face direct costs to put financial protections in place to comply with our threshold policy.

Opportunity cost

41. We consider the cost of forgoing the working capital benefit of surplus credit balances to be an opportunity cost. As surplus credit balances are not required to cover the cost of supplying the supplier's customers, the supplier should not need to face the cost of replacing this working capital. Suppliers currently using surplus credit balances to sustain below cost tariffs may need to adjust their pricing strategies or obtain alternative sources of funding.

42. We expect suppliers will face this opportunity cost for any surplus credit balances returned to consumers under our autorefund proposal and in the event that the supplier chooses to forgo surplus credit balances to comply with our threshold proposal.

43. As surplus credit balances are not required to run the supplier's business and represent an overpayment made by the customer which should be returned, we have excluded the cost of forgoing working capital from surplus credit balances (opportunity cost) from the costs figures used to estimate the net benefits of the policy.

44. We have monetised this opportunity cost by expressing it as a cost of capital.

45. Using publicly available information collated by our consultants in early 2020, and feedback to our 2019 consultation and draft Impact Assessment we have estimated a mid-range cost of capital for suppliers of different sizes. These are outlined in table 2 below.

Table 2: Estimated cost of capital for different sized suppliers, % p.a. (nominal), and estimated market share

	Large Supplier	Medium Supplier	Small Supplier
Cost of capital	8.5%	12%	20%
Estimated market share	80%	15%	5%

46. To calculate a market cost of capital we took an average of this cost of capital range, weighted by market share of each supplier group. This gave us a weighted-average market cost of capital of 9.6% per annum (nominal).

47. We calculated the credit balances forgone per month under different policy scenarios and applied a monthly average of the annualised market cost of capital figure – 0.8% per month.

48. This means that the opportunity cost of working capital forgone would be c£223m, based on 2018 level of surplus credit balances if we applied a non-weighted threshold, or c£974m if we applied a weighted threshold.

Direct protection costs

49. Suppliers will incur direct costs to protect any credit balances they choose to hold above the threshold. Therefore, consumers may face the additional costs of suppliers passing these protection costs through to consumer bills. Consumers face no direct cost when suppliers do not hold credit balances above the threshold. We expect that a rational supplier will take action to avoid holding credit balances above the threshold – avoiding the costs of protecting these credit balances.

50. However, in some cases suppliers may take the commercial decision to hold some surplus credit balances above the threshold throughout the year. In our analysis we have assessed the costs of all suppliers holding the 2018 level of surplus credit balances and protecting these credit balances – a worst case scenario which we think is unlikely.

51. Suppliers can reduce the direct policy costs they face – and the additional costs faced by consumers – by holding less credit balances. The less that suppliers hold above the threshold, the less additional costs consumers face.

Cost of using a guarantee

52. A guarantee is the use of a third party to act as a guarantor in order to cover the liability in the event of default.

53. Suppliers protecting their surplus customer credit balances using some form of guarantee will likely pay an annual premium to the guarantor. Different supplier business models will face different costs. In this analysis we have assumed that the rates charged by a supplier will be similar to the cost of capital identified in Table 2 above.

54. As we have assumed that guarantors will charge an annual premium for the amount protected we have applied the annualised market average cost of capital rate of 9.6% to the maximum market surplus of £590m – £1.4bn. As an alternative we could have applied a monthly weighted rate to the surplus credit balances guaranteed each month. This would have yielded a lower cost. We welcome stakeholders' views on the appropriate approach to adopt in our final Impact Assessment.

55. Our market average guarantee rate of 9.6% does not take into account that some suppliers could access a substantially cheaper parent company guarantee. Analysis of publicly available information collated by our consultants suggested that a parent company guarantee could be provided to a supplier at between 0% and 1.75% of the amount guaranteed.

56. Responses to our draft Impact Assessment suggested that seeking a parent company guarantee for this policy would be unattractive as the benefits that this would bring would be less than the harm it would do to a supplier's parent company. Therefore, we have excluded parent company guarantees from our cost assessment at this stage. However, given the amount of credit balances that a supplier may need to protect is lower under our revised threshold policy, we are aware that our assumptions may need to be revised ahead of our final Impact Assessment.

57. We welcome stakeholder views on whether we should account for some suppliers using a parent company guarantee when establishing a guarantee rate representative of the market as a whole.

58. A supplier using a guarantee would retain the associated working capital and be able to invest it as it sees fit. In the event of the supplier failing, the guarantor would provide the beneficiaries with the sums covered subject to the conditions being met. Therefore there is no opportunity cost associated with using a guarantee.

Cost of using an escrow account

59. An escrow account is a bank account that is held by a bank or a solicitor who controls the account's funds.

60. To protect surplus credit balances a supplier would pay cash into an escrow account controlled by a bank or solicitor who, for a fee, would retain the funds until specified conditions relating to the release of the funds are met.

61. Suppliers using an escrow account to protect their surplus customer credit balances will have to pay a facilitation fee relative to the amount held in the account. Unlike a guarantee, we would not expect the fee associated with an escrow account to vary based on a supplier's risk profile. We expect that this facilitation fee will be around 0.5% of the protected amount.[40] A supplier will also forgo the working capital benefit of the sums protected in the account – facing an opportunity cost.[41]

62. In some circumstances a supplier may face a direct cost to raise working capital to place and hold in the escrow account. For example, if a supplier was required to protect their expected surplus credit balances at the start of the year, they would face a direct cost to raise these funds in addition to the facilitation fee. We have not included this cost in our cost scenarios as it is not our preferred approach to require suppliers to protect customer credit balances annually. See chapter 4 for further details.

[40] Escrow accounts are used in the Connection and Use of System Code (CUSC) for payments made by suppliers to National Grid (NGET). We are aware that such facilitation would typically involve a fee from the bank of ~0.5%.
[41] We have explored how methodology for assessing the cost of capital above in paragraphs 46-47.

Hard to monetise costs

Other tariff price rises

63. We have outlined that consumers may face increased tariff prices should their supplier choose to hold credit balances above the threshold and so incur the direct protection costs. However, our policy could, indirectly, lead to increased tariff prices in other ways.

64. **Increased payment method cost:** the cost of supplying customers paying by fixed DD may increase – leading to higher prices for customers. Fixed direct debits typically lead to high customer credit balances, and while our threshold aims to reflect the amount of credit a supplier needs to collect from a consumer to cover the consumer's winter debt, a supplier may still face additional policy costs. For example, a supplier may need to take out a small amount of protection as headroom to offset the risk that their estimates of credit balances are incorrect. This would increase the cost of supplying the customer and a sustainable supplier may reflect this by increasing its prices.

65. **Sustainable pricing:** suppliers currently pricing unsustainably and subsidising loss making using high customer credit balances may need to raise their tariff prices to reflect the cost of supply. Without complementary reforms in relation to the RO suppliers may continue to subsidise loss-making with other low-cost sources of working capital.

Costs not assessed in this analysis

66. In this analysis we have not considered the administrative costs that a supplier may face when setting up new processes, making systems changes, or hiring additional resources to comply with our proposals. For example, suppliers may face increased charges associated with a higher volume of refund transactions.

67. Given the activities that suppliers are likely to undertake to comply with this policy are closely aligned with activities that well operated suppliers are currently undertaking we do not expect these additional administration costs to be significant.

68. We welcome stakeholders' views on the additional administrative costs that might be faced by suppliers in complying with our proposed policies.

69. We have also not yet considered the impact of Covid-19 on the costs charged to suppliers who decide to protect surplus credit balances. We have also not yet considered in detail the combined impact of our proposals in line with potential changes in relation to the RO which government may decide to take forwards, subject to the separate Ofgem/BEIS joint consultation on the range of potential RO reforms.

Cost and benefits scenarios table

70. In the below table we have set out our costs, benefits, and net benefits. As suppliers would have a number of options for complying with our policy we have set out a number of scenarios. Each of our scenarios are assessed independently. These scenarios are:

- **Scenario 1**: all suppliers opt to hold 2018 level surplus credit balances and pay the associated protection cost. This scenario also considers the cost of suppliers using an escrow account or a guarantee to protect surplus credit balances.

- **Scenario 2**: all suppliers opt not to hold surplus credit balances and face no direct protection costs.

71. Both scenarios consider the impact of our preferred weighted threshold and our non-weighted threshold.

72. These scenarios represent the lowest-cost and the highest-cost cases. In reality we consider that costs will be somewhere between these scenarios – for example with some suppliers opting to protect surplus credit balances and some opting to not hold surplus credit balances. Of those suppliers who choose to protect surplus credit balances some will choose to use an escrow account while other will chose to use a guarantee.

73. We have also assessed the costs and benefits of our autorefund policy. We use our weighted and non-weighted thresholds to estimate surplus credit balances and express these as a high and low assumption.

74. In the below table we have divided costs into direct and opportunity costs. Opportunity costs represent the cost of forgoing the credit balance working capital and

have been excluded from our net-benefit figures (as explained above). The direct costs represent the cost that suppliers would face to protect their surplus credit balances.

Table 3: summary of costs and benefits

Option	Opportunity cost (10-year PV, £2020m)	Direct cost (10-year PV, £2020m)	Total cost (10-year PV, £2020m)	Consumer Benefit - avoided mutualisation (1 SoLR per year for 10 years PV, £2020m)	Consumer Benefit - avoided mutualisation (4 SoLRs per year for 10 years PV, £2020m)	Consumer Benefit - cash back to consumers (£m)	Low case: net benefit (NPV £2020m) – based on direct costs	High case: net benefit (NPV £2020m) – based on direct costs
Scenario 1a: thresholds – weighted - no reduction in 2018 credit balances								
Escrow	974	61	1034	54	216	0	**-7**	**155**
Guarantee	0	1162	1162	54	216	0	**-1108**	**-946**
Scenario 1b: thresholds – non-weighted - no reduction in 2018 credit balances								
Escrow	223	25	248	23	90	0	**-3**	**65**
Guarantee	0	486	486	23	90	0	**-463**	**-396**
Scenario 2: threshold – all suppliers hold credit balances below threshold								
Weighted	974	0	974	54	216	1406	**1460**	**1621**
Non weighted	223	0	223	23	90	588	**611**	**678**
Automatic refund								
High Estimate	974	0	974	54	216	1257	**1311**	**1472**
Low Estimate	223	0	223	23	90	439	**462**	**529**

Appendix 2: Our threshold model

Our model is published separately to this consultation and can be found as a subsidiary document to this consultation.

Appendix 3: Draft licence conditions

Modifications in red, deletions are denoted with a strike through and new text denoted with double underlining.

1.3 […]

Supplier of Last Resort means a Supplier to whom the Authority has given a Last Resort Supply Direction, pursuant to standard condition 8 of its [Electricity/Gas] Supply Licence, in respect of the premises supplied by the licensee.

27.15 ~~Save where a clear and express Principal Term of the relevant Domestic Supply Contract provide otherwise~~, The licensee must ~~take all reasonable steps to~~ ensure that the fixed amount of the regular direct debit payment is based on the best and most current information available (or which reasonably ought to be available) to the licensee, including information as to the quantity of electricity which the licensee reasonably estimates has been or will be supplied under the relevant Domestic Supply Contract.

27.15A Where the licensee accumulates a Credit under a Domestic Supply Contract and, in any month, it exceeds the relevant milestone threshold amount published by the Authority, which the Authority may from time to time revise following consultation, the licensee must protect the surplus Credit using one or more of the following options:

(a) by the licensee depositing the surplus Credit in a separate bank account, held by a third party, who undertakes to hold it on trust for the relevant Domestic Customers directly and/or the SoLR appointed by the Authority. The surplus Credit to be used solely for the purpose of reimbursing Credit to relevant Domestic Customers and/or its transfer to a Supplier of Last Resort appointed by the Authority. The surplus Credit in aggregate must be held separate from all other funds of the licensee and must not intermingle with any such funds; or

(b) an appropriate guarantee from a third party or parent company of the licensee with a minimum credit rating of investment grade.

27.15B.1 Where a Domestic Customer pays the Charges which are payable under its Domestic Supply Contract by way of regular direct debit payments of a fixed amount and

any Credit has accumulated under that Domestic Supply Contract, the licensee must, by the relevant date:

(a) pay to the relevant Domestic Customer any Credit on that Customer's account, using the same payment method used by the relevant Domestic Customer; or

(b) deduct the Credit from the relevant Domestic Customer's next Bill.

27.15B.2 For the purposes of paragraph 27.15B.1, the relevant date falls 14 days after each anniversary of the date on which the first payment was taken under the relevant Domestic Supply Contract.

27.15B.3 For the purposes of paragraph 27.15B.1, the Credit is to be calculated for the preceding calendar year in accordance with the following formula:

Credit (CR) = Payment (P) - Consumption (C)

where:

CR means a sum, in pounds sterling, that is greater than 0;

P means the total of the first 12 monthly direct debit payments made to the licensee by the relevant Domestic Customer, in a year starting from the Supply Start Date or, in each following year, the anniversary of the Supply Start Date; and

C means the first 12 months of consumption in a year starting from the Supply Start Date and, in each following year, the anniversary of the Supply Start Date.

27.15B.3 Where the responsibility for the supply of electricity to a Domestic Customer transfers from the licensee to another Electricity Supplier or otherwise terminates, the provisions of paragraphs 27.17 and 27.18 apply to the repayment of Credit.

27.16 Where any Credit has accumulated under a Domestic Supply Contract and the relevant Domestic Customer requests that the licensee do so, the licensee must, save where it is fair and reasonable in all the circumstances for the licensee not to do so, refund, in a timely manner any Credit which has accumulated under that Domestic Supply Contract to the relevant Domestic Customer. Where the licensee considers that it is fair and reasonable in all the circumstances for it not to refund any Credit which has accumulated

under a Domestic Supply Contract in accordance with this provision, it must inform the relevant Domestic Customer of its view and of the reasons for holding that view.

In this condition, "Credit" means the amount by which the payments made by a Domestic Customer to the licensee under or in accordance with the relevant Domestic Supply Contract and any rewards or discretionary payments where the licensee credits the Domestic Customer's account, exceeds the total amount of Charges which is due and payable by that Domestic Customer to the licensee under that Domestic Supply Contract, minus any amount that has been refunded to the Domestic Customer.

Appendix 4: Protection Mechanisms

1. Suppliers opting to hold credit balances above the threshold – known as surplus credit balances – will be required to protect their surplus credit balances against mutualisation. We have proposed that suppliers choose from a 'menu' of options for protecting their surplus credit balances:

2. **Escrow** (referred to in this appendix and the licence as a separate bank account): placing the surplus amount in a separate bank account held by a third party who undertakes to hold it on trust for the relevant domestic customers with surplus credit balances in their favour and/or for the appointed SoLR by Ofgem; or

3. **Guarantee:** the surplus amount is guaranteed by a third-party or parent company guarantor with a minimum credit rating of investment grade.

4. This appendix sets out our updated thinking on the use of protections to protect surplus credit balances.

Feedback from our 2019 consultation

5. We consulted in 2019 on proposals for suppliers to protect 50% of their credit balances and government scheme costs. Stakeholders had some practical concerns with regards to how the protections would work in practice.

6. Stakeholders were particularly keen to understand the extent to which a guarantee would be legally binding after a supplier had failed and who would act as the counterparty on an escrow account.

Our views

7. We have since conducted further analysis to enhance our understanding of protections and address stakeholders' key questions.

Guarantees

8. A supplier would set up an arrangement with a guarantor who would agree to pay the supplier's surplus credit balance costs in the event of the supplier's failure. Examples of a guarantor could include a parent company, a bank, or another financial

intermediary. A guarantor is likely to offer to guarantee the surplus credit balances in return for a fee – related to a supplier's risk.

9. To ensure the suitability of the guarantor to provide this service, it is likely we would need to specify the credit rating. We consider a company with an investment grade credit rating or higher would be a suitable guarantor.

10. In the case of a parent company guarantee, we would not expect there to be a significant cost involved in providing this. We acknowledge that the parent company may pass on any costs it faces in providing this service to the subsidiary or may seek a small return for any increase in risk it takes on as a result of carrying out this role.

11. In the case of a third-party guarantee, the fee will vary depending upon the third-party's view of the risk-to-reward ratio for each supplier and the current economic and financial climate. There is potential for this cost to be high, particularly under the current economic environment. There is also a risk that this could introduce distributional impacts, as it is possible that smaller and less credit worthy suppliers will face higher costs than larger, more established suppliers.

12. Under both types of guarantees, the supplier would retain the associated working capital and be able to invest it as it sees fit.

Holding funds in a separate bank account

13. Suppliers would place surplus credit balances into a separate bank account held by a third party, such as a bank, for a fee. The third party would retain the funds until specified conditions relating to the release of the funds are met.

14. Unlike a guarantee, we would not expect the fee associated with a separate bank account to vary based on a supplier's risk profile – in our costs and benefits analysis we have assumed a 0.5% fee similar to the Connection and Use of System Code escrow fee.

15. However, as this option would require the supplier to physically place customer cash in a separate escrow account, it would not retain the associated working capital and may face an opportunity cost, or the direct cost of raising cash to hold in the account initially.

Beneficiary

16. For both protection options, it will be important that the beneficiary of the protected credit balances can be identified. We are proposing that the beneficiaries will be the relevant domestic customers with surplus credit balances in their favour and/or any SoLR that is appointed by Ofgem. The surplus credit balances are to be used solely for the purpose of reimbursing relevant domestic customers and/or for its transfer to a SoLR appointed by Ofgem following a supplier's insolvency.

17. For the avoidance of doubt, we are proposing that in the event of a SoLR, it will be the SoLR appointed to take on the customers of the failed supplier who will receive the funds – not the individual customers themselves.

18. When a supplier exits the market through the SoLR process, Ofgem appoints a SoLR to take on its customers. The appointment of a SoLR at a later date does not prevent an effective trust arrangement from being put in place. The terms of the trust arrangement will enable the funds to be transferred to any SoLR that is appointed by Ofgem.

Interactions with insolvency law

19. Some stakeholders were concerned that the protected funds would go to the administrator rather than to the appointed SoLR and the relevant customers, in the event of a supplier insolvency.

20. In the case of a guarantee, from a third party or parent company, the guarantor would be obligated to pay the beneficiary directly. The payment will not come from the supplier's insolvent estate.

21. In the case of a separate bank account, the surplus credit balances held on trust via a third party, would fall outside the assets of the failed supplier. It is a critical requirement that the surplus credit balances are to be held segregated from the suppliers' other funds and that the beneficiaries are clearly identifiable to ensure that the requirements of a valid express trust arrangement are met.

22. To do this, suppliers would pay money into a separate bank account, held by a third party, and undertake to retain the funds on trust for the relevant domestic

customers and/or the appointed SoLR until specified conditions relating to the release of the funds are met.

23. The specified condition for any funds to be extracted would either be to reimburse the relevant domestic customer directly and/or be transferred to the appointed SoLR in the event of the supplier's insolvency. The funds will need to be held separate and must not intermingle with the supplier's other funds.

24. The specified condition of using surplus credit balances for the purpose of reimbursing relevant domestic customers is in line with the proposed autorefund policy. The supplier will also be able to reimburse the relevant domestic customer from the account should the relevant domestic customer decide to change suppliers or request a refund. Aside from reimbursing the relevant domestic customer, the surplus credit balances can also be transferred directly to the appointed SoLR by Ofgem. The option of having both the relevant domestic customers and/or the SoLR as beneficiaries will enable funds to be released depending on the specified condition that arises.

Appendix 5: Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379, as retained in domestic law (**GDPR**), and other legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see appendix 6.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

Appendix 6 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer.

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data.

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data.

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data.

Please note that responses not marked as confidential (see appendix 5) will be published on our website. Please be mindful of this when including personal details.

4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for the duration of the consultation and decision, until the completion of any related legal proceedings.

5. Your rights.

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content, and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas.

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

9. More information.

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".

General feedback

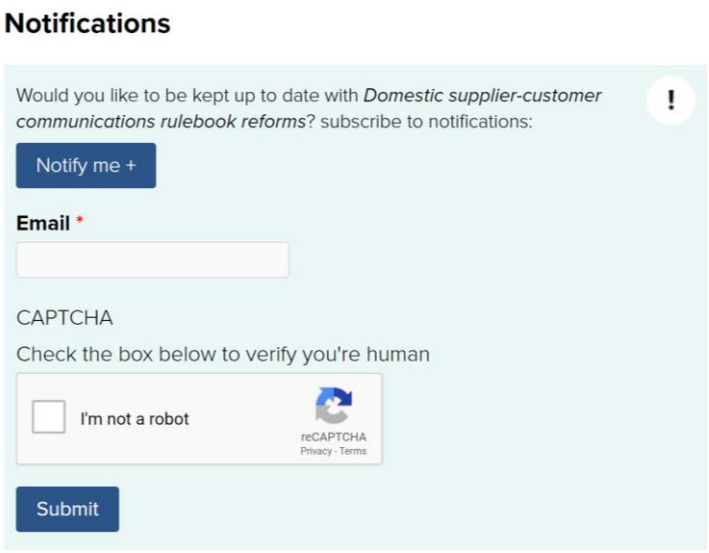
We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

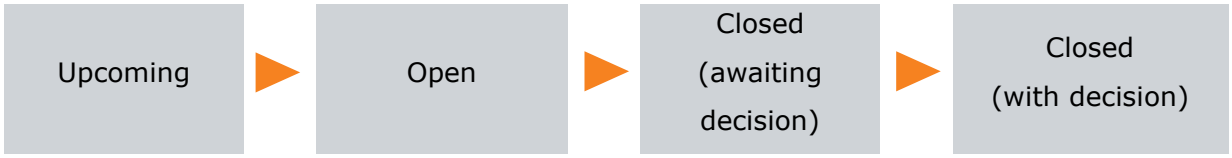
Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:


Upcoming
Open
Closed (awaiting decision)
Closed (with decision)