



Making a positive difference
for energy consumers

Electricity suppliers, gas
suppliers, consumers and other
interested stakeholders

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Decision on our approach to dealing with supplier insolvency and its consequence for consumers

Electricity and gas is supplied through markets and on the basis of a competitive process in Great Britain. While competition has the potential to bring many benefits to consumers, a competitive process occasionally leads to companies failing; this applies as much in relation to the gas and electricity supply markets as it does to other markets.

When a supplier fails, our focus is to ensure continuity of supply for its customers and avoid wider negative effects on the market. We can do this through the Supplier of Last Resort (**SoLR**) process or, where this is not feasible, through use of powers to seek the appointment of an energy supply company administrator (an **energy administrator**). Under the energy administration we can, subject to the Secretary of State's consent, ask the court to appoint an administrator with the express purpose of the continued operation of the supplier.

Under the SoLR process, we are able to nominate another supplier to take on the customers of the failed supplier. This is a competitive process where other suppliers bid to be appointed as the SoLR on the basis of the prices they would charge the customers transferred from the failed supplier. The SoLR process also allows for the appointed supplier to recover certain costs associated with becoming the SoLR through industry arrangements (i.e. a small increase in network charges), known as the industry levy.

In the event of insolvency, there may, however, be financial implications for the failed supplier's customers. Some customers' accounts are likely to have a credit balance at this time. These customers may be an unsecured creditor. Without regulatory intervention, they are unlikely to receive all (or possibly any of) this money back from the failed supplier.

We recently consulted on a proposal to update our approach to the SoLR process, to provide for a safety net to protect consumers' credit balances which they may have with a failed supplier. Under our proposals, we would consider both the prices which bidding suppliers have offered, and whether they would protect customers' credit balances. We also set out that we would consider, on a case-by-case basis, allowing a SoLR to recover the costs of honouring credit balances in addition through the industry levy.

We have considered the responses to the consultation – which we will publish on our website – and have decided to implement our proposal and update our guidance on SoLR to clarify we would use the process to provide for a safety net to protect consumers' credit balances. We have published this updated SoLR guidance alongside this decision, which we would follow in the event of any supplier failure.

The Office of Gas and Electricity Markets

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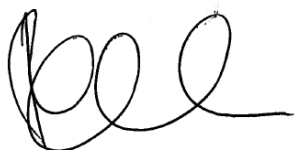
There was broad support for the objective of protecting customers' credit balances, although respondents expressed a range of views on the most appropriate way to achieve this objective. Alongside the consultation we have also reviewed information from suppliers to understand the materiality of this issue to consider the impact of our preferred option.

While there were some strong views expressed, the consultation responses did not identify any new evidence which has caused us to change our position in favour of the other options we considered. This includes introducing a fundamental change to the licensing and regulation approach to energy suppliers to put in place prudential requirements or limitations on the business practices of suppliers. As such, we continue to believe that the significant additional costs and downsides of such changes make them unattractive at this point in time.

In addition, our analysis of information from suppliers confirmed that the materiality of protecting credit balances and considering allowing access to the industry levy was low. This gives us comfort on our conclusion that amending our SoLR policy would not have a material negative effect on the behaviour of suppliers or the operation of the retail market in general.

As the retail energy market continues to evolve, we will keep this position under review so we can assess whether our proposal is having the intended effects, i.e. protecting consumer balances and maintaining overall confidence in the retail market. We will also consider whether the position has changed on any of the other options which we do not think today would be proportionate. Alongside this amended policy we are also increasing our engagement with potential and new suppliers so we can better understand their business models and financial arrangements. This will help us make any such future assessments of these questions.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Rob Salter-Church', written in a cursive style.

Rob Salter-Church
Partner, Consumers and Competition