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By email: supplier@ofgem.gov.uk

Dear Rob

Last Resort Supplier Payment Claim from Co-operative Energy

Thank you for providing the opportunity to comment on Ofgem's proposed position in relation to Co-operative Energy's claim for reimbursement via a levy on network charges.

As you will recall from previous correspondence, Centrica has longstanding concerns about current Supplier of Last Resort (SoLR) arrangements. Our overall concern is that they fail to strike the right balance between

- Avoiding moral hazard (i.e. incentivising suppliers to act responsibly and incentivising consumers to take steps to assure themselves that their supplier is acting responsibly)
- Protecting consumers' credit balances that were accrued while with the failed supplier
- Protecting consumers who were not supplied by the failed supplier by ensuring that they do not face disproportionate costs
- Not unduly increasing barriers to entry
- Being practicable to implement

While we accept the need for a safety net to ensure supply continuity as a genuine last resort, we firmly believe that prevention is better than cure – especially when the cost of protecting the credit balances of a failed supplier falls to customers of all other suppliers. We recognise that Item 1 of Co-operative Energy's claim is for 70% rather than 100% of the outstanding credit balances, but the sum to be 'smeared' across customers of other suppliers remains material. While the former customers of GB Energy have been protected on this occasion, customers and suppliers generally must not be lulled into a false sense of security that seamless transfer and generous financial protection are assured – at other customers' expense - if things go wrong in future.

We welcome Ofgem's acknowledgment that there are lessons to be learned from this SoLR episode – the first resulting in a claim since the SoLR arrangements were introduced in 2001. And we welcome Ofgem's clearly stated intention to make improvements to the process going forwards.

As part of that review, we believe Ofgem should

- review the appropriateness of protecting customers of a failed supplier with an unsustainable business model at the expense of all other customers
- consider afresh how it licences new suppliers, particularly where their business models involve advance payment by customers.

We are not alone in this view. Citizens Advice has previously highlighted the anomalous situation whereby someone could fail to meet the criteria to hold a consumer credit licence but still be free to run an energy supplier.¹ We share their concern and urge Ofgem to ensure that it considers the root cause of supplier failure and takes active steps to mitigate that risk, for instance through satisfying itself that new entrants with precarious finances do not embark on unsustainable business ventures that pose undue risk of customer detriment.

We should, of course, be very happy to discuss these matters further in due course. In the meantime, if you have any questions please contact don.wilson@centrica.com in the first instance.

Yours sincerely

Alun Rees
Director, Retail Market Policy
Centrica

¹ <https://wearecitizensadvice.org.uk/to-supply-or-not-supply-7e2b5ea5dc5f>