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Dear Rob

Thank you for providing us with the opportunity to comment on Cooperative Energy's claim for payment for acting as the supplier of last resort (SoLR) for GB Energy Supply Limited ('GBES').

We support your minded-to position to allow the majority of the amount claimed to be recovered from other suppliers (and by extension, from their consumers), although the materiality is larger than we were expecting. At the time GBES collapsed, its Managing Director indicated that once unbilled usage was taken into account its outstanding credit balances were likely to be in the order of £10m.¹ Co-operative Energy's credit balance claim exceeds this, even though it is only claiming for 70% of credit balances.

Ofgem's January 2017 decision letter² explaining its decision to appoint Co-operative Energy as SoLR highlighted that it was willing to cover a greater proportion of GBES outstanding credit balances than the majority of other suppliers, implying that a minority would have been willing to cover more than Co-operative Energy was. Clearly this was only one of a range of factors relevant to the determination of the SoLR, but given that the materiality of the decision has escalated it may be helpful to revisit the assumptions that were made in appointing this SoLR as part of your lessons learnt exercise.

It appears to us that one of the reasons why the Co-operative Energy bid may have been preferred was because they were willing to honour the tariffs that GBES had offered to the customers who were being transferred, and other bidders may not have been. In an implied trade-off between maintaining the failed supplier's tariffs, and protecting the customers of other suppliers from financial loss, the former appears to have been prioritised. Given the redistributive effects of SoLR, with the consumers of other suppliers picking up the tab for a financially unsustainable business, it appears preferable to us that consumers of other suppliers are protected from smeared debt in preference to honouring the unsustainable tariffs of a failed supplier, if that trade off has to be made in any future SoLR.

¹ 'Co-op Energy acquires GB Energy's suppliers,' The Telegraph, 29 November 2016. <https://tinyurl.com/ydh3fdqg>

² 'Appointment of Co-operative Energy Limited as supplier of last resort,' Ofgem, 24 January 2017. <https://tinyurl.com/y8cu6g6f>

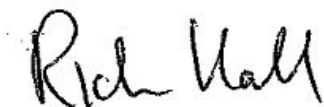
From our perspective, we accept the necessity of smearing costs over other suppliers - and by extension, their consumers - as likely to be the 'least worst' option on the table in an instance of supplier collapse where no supplier would otherwise be willing to come forward and serve those customers. But we would always wish to see these costs minimised where possible. We have written to Ofgem on several occasions, over several years, to highlight our view that market entry testing for electricity and gas suppliers is insufficiently stringent, and that this creates a risk that new entrants who lack the financial strength and/or organisational capability to survive and to meet the reasonable service quality expectations of their customers can - and do - make it into the market.

Citizens Advice, and particularly our Extra Help Unit's specialist case handling service, continues to spend a disproportionate amount of our time dealing with basic customer service failures at suppliers that could have been avoided with better vetting. We retain real concerns that some of the financial models we see being adopted appear unsustainable or unlikely to be in consumers long term interests. While we note, and applaud, the relatively seamless nature in which this SoLR assured continuity of supply we are also worried that the wrong message may be taken from it - that we do not need to worry about preventing crashes because if one happens it can be cleaned up easily, when, in our view, it would be better to try and prevent these crashes from happening. In any event, GBES had no prepayment customers and very few on standard credit, so there is no guarantee that any future SoLR will be as straightforward.

Citizens Advice remain happy to work with you in future to deliver any improvements to the market entry arrangements that are necessary to improve the operational preparedness and financial robustness of new entrants.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely



**Richard Hall
Chief Energy Economist**