



Rob Salter-Church
Partner, Consumers and Competition
Ofgem
9 Millbank
London
SW1P 3GE

Drax Group plc
41 Moorgate
London
EC2R 6PP

12th December 2017

Sent via email to supplier@ofgem.gov.uk

Dear Rob,

Last Resort Supplier Payment Claim from Co-operative Energy

I am writing in response to your 16th November 2017 letter setting out your minded-to position on the Last Resort Supplier Payment Claim from Co-operative Energy. This is a joint response on behalf of Haven Power and Opus Energy which are both part of Drax Group Plc. Haven Power is the UK's 5th largest non-domestic electricity supplier by volume. Opus Energy is the UK's 6th largest non-domestic gas and electricity supplier by meter count with over 300,000 supply points.

Your minded-to letter gave your rationale in deciding to allow Items 1 to 3 of the Claim and not to allow Item 4. We support this aspect of your minded-to decision but have concerns about the proposed timing of recovering the money through Network charges.

Unforeseen or short-notice variances in third-party charges present a significant exposure to Suppliers. That exposure is reflected either in those charges being passed-through to consumers or a risk premia being included in the fixed-price offered. That is why we worked with the Industry to develop DCUSA change proposal DCP 178 which gives 15 months' notice of DUoS Charges. DCP 178 became effective from 5th November 2015 meaning we have known final April 2018 DUoS tariffs since December 2016. This amount of notice enables us to offer consumers the best price possible without including a risk-premium or varying prices mid-contract. In turn, this gives our customers valuable price and budgetary certainty.

It is against this backdrop that we are concerned this Claim may be recovered in April 2018 Network charges. The operational implications of changing network charges at this late stage are significant. As a supplier we have already embedded the April 2018 Network charges into our billing, pricing and quotation systems. And we have already priced customers with contracts assuming the April 2018 network

charges were final. We therefore may have to reopen those contracts to recover these increased charges.

Considering the size of this Claim, we urge you to consider recovering it through the usual Over/Under Networks cost recovery process rather than through April 2018 Network charges. This approach has many advantages:

- 1) Existing Supply contracts do not have to be reopened helping to maintain consumer trust and giving consumers budgetary certainty
- 2) Suppliers do not incur costs to adjust Network charges in systems
- 3) Suppliers do not suffer a loss from contracts already priced on 'final' Network charges
- 4) Network companies can leave the current charging models untouched
- 5) Network companies do not need to repopulate their billing systems

If this Claim is recovered through April 2018 Network charges, then we would have to consider passing on these extra costs to our customers. We also believe that smaller suppliers and new entrants are disproportionately impacted by this type of change, as they are less able to manage tariff increases at short notice.

We also urge you to consider these same points when reviewing any future Claims or indeed when making any regulatory changes that lead to price changes at short notice.

Please don't hesitate to contact me if you would like to discuss further.

Yours sincerely

Matt Young

Head of Retail Regulation, Policy & Compliance
Drax Group Plc