



Ofgem Open Letter - Last Resort Supplier Payment Claim from Co-operative Energy

E.ON Response

Executive Summary

Thank you for the opportunity to comment on your proposal to consent to Co-operative Energy Limited ("CEL")'s claim for a Last Resort Supply Payment. We are supportive of an efficient and effective Supplier of Last Resort ("SoLR") process to ensure an effective market.

We need certainty and sufficient time to react to any changes applied by distribution companies to recover the cost of any claim. We would therefore make the following points:

- Our understanding is that, providing CEL makes a claim more than 60 days prior to 1 April 2018 as required under the relevant licences, distributors and transporters will be obliged to recover the value of the claim through use of system charges during 2018/19. Our preference would be for recovery in 2019/20. If this is not feasible, we would prefer recovery to be over a six-month period, 1 October 2018 – 31 March 2019.
- To minimise costs to suppliers, we recommend that CEL channels its claims through electricity distribution businesses only as pence/day charges on profile classes 1 and 2 only or, if that is not feasible, through all meter points (MPANs), as has been the case with adjustments made in the past. Suppliers should already have adequate processes in place to recover these additional costs from customers via electricity accounts.
- As there may be additional amounts recovered by CEL from the liquidator after 1 April 2018, it is likely that, in future years, distributors and transporters will need to make use of the mechanisms in their licences to ensure there is no over-recovery from the industry. In fact, the liquidation process could go on indefinitely, meaning that distributors and transporters may be making adjustments for years to come. We do not believe this is in the best interests of consumers, who are likely to overpay in the short term. In order to avoid this, an appropriate date could be established, a 'line in sand', beyond which the liquidator ceases to pass any costs or benefits through to CEL, at which point CEL could make its claim. Distributors and transporters could recover the value of the claim over the following year (1 April – 31 March) or six months (1 October – 31 March). Alternatively, the claim could be settled over two years (2018/19 and 2019/20), allowing CEL to claim a percentage of the value in the first year and the remainder only once the line in the sand had been drawn.



Please see below our comments on each specific claim being made by CEL.

Item 1: Recovery of 70% of GBES consumers' net credit balances (£10.98m)

We accept that, in accordance with CEL's successful bid to become Supplier of Last Resort ("SoLR") to GBES' customers, CEL has a legitimate claim in respect of this item. We would like assurances that GBES' liquidators are doing all they can to ensure that energy consumers are not required to pay more than is absolutely necessary to cover these credit balances.

Item 2: Emergency wholesale procurement cost (£1.27m)

We do not agree with Ofgem's decision to approve this element. The SoLR process is designed to allow suppliers to create new deemed prices for the first six months after taking on a failing supplier's customers.

These prices should take account of any reasonably predictable costs, such as additional wholesale costs. GBES provided, via Ofgem, a clear view of the demand it anticipated for its customers: CEL would have been able to make a reasonable assessment of its additional costs in relation to procurement of emergency wholesale energy.

Item 3: Cost of capital (£1.79m)

We believe CEL could have made a reasonable assessment of the costs it would incur in relation to cost of capital in protecting customers who held a credit balance with GBES. We therefore do not agree with Ofgem's decision to allow CEL to include this in its claim.

Item 4: IT System migration costs (£0.86m)

We agree with Ofgem's decision not to allow this element to be included with CEL's claim.