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Our ref

Your ref

Date

12 December 2017

Dear Rob

Last Resort Supplier Payment Claim from Co-operative Energy

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to Ofgem's Minded to Letter on Co-operative Energy's (CEL) Supplier of Last Resort Claim (SOLR claim).

We have no particular comments to make on Ofgem's minded to decision in relation to CEL, other than to support the principle that commitments given by Ofgem to an industry party should be honoured.

Recovery of CEL SOLR Claim in 18/19 DUOS prices

We note the concluding paragraphs of Ofgem's letter.

"We currently expect to confirm our final decision in January 2018, to enable the agreed amount to be recovered through relevant network charges in 2018/19.

The CEL claim is the first Last Resort Supply Payment that Ofgem has had to consider since the SoLR arrangements were introduced in 2001. As is to be expected for this kind of process, there are certain lessons and improvements we will incorporate into the SoLR process going forwards. We will also consider whether a further update to our SoLR guidance, in relation to Last Resort Supply Payment claims, once we have made our final decision."

As the minded to letter points out, this is the first time that the SOLR process has been invoked. For WPD as a DNO this means that SLC38 will operate for the first time. SLC38 was drafted well before the 15 month notice period requirement for price changes.

SLC38 provides as follows.

Disregard of certain matters:

38.7 In calculating the licensee's Use of System revenue during any period for the purposes of any Charge Restriction Condition that may be applicable to the licensee

under this licence, any increase or decrease in Use of System revenue attributable to the licensee's compliance with this standard condition 38 must be treated as if it had not occurred.

38.8 The provisions of this condition have effect even if the licensee has not provided the Notice required under paragraph 17 of standard condition 14 (Charges for Use of System and connection).

As WPD's 18/19 prices were set in December 2016, (and 19/20 prices are due to be set in December 2017) to recover the SOLR amounts will mean a price change in February 2018, and possibly a further adjustment to 19/20 prices in February 2019.

As you are aware this approach was discussed with industry parties including suppliers at the recent Distribution Charging Methodologies Development Group (DCMDG). Following on from DCMDG Northern Powergrid has prepared a paper on SOLR DUoS options.

We support NPg's paper and recommended approach that as over 99% of the MPANs affected are domestic, the SOLR costs should be recovered by increasing 18/19 prices as a supplementary fixed charge to the domestic market sector only.

Future SOLR Claims & Bad debts

Ofgem should review the process for future SOLR recovery:

- (a) in the light of the requirement for 15 months' notice of price changes
- (b) whether a SLC38.7 and 38.8 should be removed and replaced with a more formal recovery mechanism e.g an extra term in Allowed Revenue or an extra pass through term.

At the same time Ofgem need to address the omission of a formal cost recovery mechanism for DUOS bad debts associated with supplier failure. DUOs bad debts incurred prior to April 2015 have been dealt with under the DPCR4 and DPCR5 close out processes. It would be preferable to include a formal pass through mechanism.

We understand that a proposal was submitted ENWL and Northern Power Grid.

If you would like to discuss this further please contact Simon Yeo at syeo@westernpower.co.uk on 0117 9332349.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager