

Lesley Nugent
Head of Industry Codes and Licensing
Ofgem
9 Millbank
London
SW1P 3GE

11 July 2018

By email: licensing@ofgem.gov.uk

Dear Lesley,

RE: Proposed modifications to SoLR supply licence conditions

Centrica welcomes Ofgem's intention to provide clarity to the Supplier of Last Resort (SoLR) process.

However, we have significant concerns that Ofgem has not carried out sufficient analysis to justify two of the proposed licence changes relating to:

- The length of time a SoLR has to make a Last Resort Supply Payment Claim; and
- Honouring customer credit balances.

Making a Last Resort Supply Payment claim

Allowing up to five years for a SoLR to make a claim for a Last Resort Supply Payment may act as a disincentive for the SoLR to make a claim as soon as practicable.

A wait of up to five years for costs to be passed through to other suppliers also adds uncertainty to their balance sheets. Therefore a Last Resort Supply Payment should be processed as soon as possible after a SoLR event.

It is unclear how Ofgem has decided on the five year limit as it does not appear to be tied to any specific energy industry processes. Ofgem has not provided any justification for the five year limit in its consultation.

The change to move to a five year upper limit should be subject to an impact assessment that looks at the unintended consequences on other suppliers and alternative timescales. For example, why is it not possible for a supplier to make a claim within 12 months? 12 months is a timescale that Centrica considers to be achievable for a claim to be made by a SoLR.

Ofgem should consider whether there are other industry claims processes that a Last Resort Supply Payment claim's timescales could be aligned to, for example the income adjusting events for electricity transmission networks.

The licence condition does allow for the Authority to determine a timescale shorter than five years but it is unclear how this will be determined. The consultation and the licence conditions should set out how the Authority will determine the upper time limit for a SoLR to make a Last Resort Payment Claim.

Honouring customer credit balances

We understand that offering to honour a customer's credit balance provides financial security to a customer whose current supplier has failed. Allowing a supplier to recover costs incurred in honouring credit balances will incentivise suppliers to honour credit balances as part of their SoLR role, thus providing greater certainty to affected customers.

However, there is also an impact on the wider consumer base who will have to pick up these costs as they are passed through to them via their supplier. Further analysis is required to determine the distributional impacts of honouring credit balances.

When a customer signs up to an energy supplier he does not have the information available to them to determine what would happen to their credit balances if the supplier should fail. Furthermore many customers would assume that an Ofgem licenced supplier should behave responsibly and Ofgem will ensure that they do behave responsibly.

Therefore it is unreasonable for customers to carry out a level of due diligence around credit balances before they sign up with a new supplier. But Ofgem should be taking steps to ensure that supplier models are sustainable and customers of all suppliers are appropriately protected.

We support the proposed licence changes on credit balances but ask that Ofgem considers how it can do more to ensure suppliers behave responsibly and customers receive adequate protections. Ofgem should review the process of applying for a supplier licence and its ongoing monitoring of suppliers, to ensure there are adequate customer protections in place.

Further licence changes

The further licence changes proposed by Ofgem provide clarity on the SoLR process and we support these changes. Our suggestions on Ofgem's draft wording in the licence changes are included in the annex to this letter.

We look forward to future consultations from Ofgem on the proposed approach to licensing suppliers and protecting customers from financial instability and poor customer service. The recent increase in the number of suppliers operating in the retail energy market is a sign of a healthy competitive market. But this competition should not come at the cost of a poor customer experience.

Ofgem's wider licensing review should seek to enable competition and prevent customer detriment where possible and proportionate.

In answer to Ofgem's specific questions within the consultation:

1. Do you agree with the intent of the proposed changes? Yes, we agree with the intent of the proposed changes.

2. Do you agree that the draft licence changes deliver the intent? No, we do not agree with the change to extend the backstop for a Last Resort Supply Payment to five years. We have set out why we consider five years to be too lengthy a timescale in our letter. We are comfortable with the remaining draft licence changes, with the caveat of our proposed changes to the draft licence conditions in the annex.

3. Do you consider there are any potential unintended consequences of the proposed changes that we have not identified? Yes, there are unintended consequences in extending the Last Resort Supply Payment claim upper limit to five years. There are also unintended consequences to the proposed change for honouring credit balances. We have set out our thinking on these two points in our letter.

4. Do you have any comments on the proposed licence drafting, set out in Annex 1? Yes, these are set out in the annex to this letter.

If you have any questions, please contact Tabish Khan in the first instance on 07789 575 665 or Tabish.khan@britishgas.co.uk.

Yours sincerely

Alun Rees
Director, Retail Market Policy
Centrica

Annex: Centrica comments on the proposed drafting of the SoLR licence conditions

8.2(c) – should state “Green Deal Licensee” and “Green Deal Premisess” to follow the definitions in the SLCs. Underlining for emphasis.

9.6 – An end date should be included otherwise there could be a significant financial impact on other suppliers. See our letter for further concerns.

9.10 - definition of Closed Credit Balance – fourth line – drafting would be clearer by adding “had either transferred”