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Our ref

Your ref

Date

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Dear Lesley

Proposed modifications to SoLR supply licence conditions

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 proposed modifications to SoLR supply licence conditions.

We are disappointed that Ofgem has not included the Last Resort Payment Conditions for the Distribution Licence in its review. As set out below, Ofgem's proposed modifications to the supplier licence will not fully achieve what Ofgem intends.

We would again urge Ofgem to engage with DNOs with a view to consulting on a Distribution Licence modification as soon as possible.

(1)The Distribution licence conditions needs to be modified so that DUOS prices changes for SOLR can be made within the required 15 month timescale.

In March 2018, the SOLR process under SLC38 was invoked for the first time by Co-op Energy. SLC38 was drafted well before the 15 month notice period now required for price changes under DCUSA and did not work as intended. This meant that DNOs needed to apply to Ofgem for various derogations in order to raise prices at very short notice to fund the SOLR claim (attached). Should a larger sized supplier fail, (or several smaller suppliers) and be the subject of an SOLR claim, the impact on other suppliers of a price increase at short notice would be more significant. *Extending the period in which the new supplier can make an SOLR claim to 5 years does little to address this problem.*

(2)As identified in Ofgem's consultation, there is also no guidance on how SOLR claims should be allocated across DNO areas or market segments.

This SLC38 process was not ideal as there is no specified methodology for DUOS prices changes arising from SOLR, as SLC38 merely states that it should "be treated as if it had not occurred". As a result the Co-op Energy SOLR led to prolonged discussions between the DNOs and Ofgem to agree a way forward, which resulted in a further derogation to enable DNOs to price outside the published charging methodology.

This meant that not all customers contributed to the SOLR price increases, including IDNO customers. *The proposed supplier drafting does nothing to address this point.*

(3)A further problem is caused as prices can only be raised to a limited number of decimal places which means prices cannot be raised to collect the required SOLR amounts accurately. For the Co-op SOLR it was 2 decimal places and it is possible that further price changes will be required to rectify over recovery/ shortfalls, possibly requiring another derogation.

With the recent failure of Future Energy we are expecting a claim from Green Star Energy, especially in the light of Ofgem proposal for SOLR claims to be collected across all customers. It would be helpful to resolve the SOLR issues with the Distribution Licence prior to receiving any SOLR claim. Although the amounts involved are small. We wish to avoid further prolonged discussions and a last minute DUOS price change outside of the 15 months' notice period, requiring yet more derogations.

Recovery of Distributor bad debt resulting from supplier default

An associated issue is that there is no formal mechanism for recovering bad debt resulting from supplier default. There is only a commitment from Ofgem to treat amounts within ED2, i.e. as an ED1 close-out.

This means that bad debt amounts will accumulate during ED1 and then be passed on to suppliers at the start of ED2. We note that IDNOs have raised DCP 314 in relation to supplier default debt.

Way forward

The distribution SOLR mechanism is in urgent need of review as the drafting is not fit for purpose.

SLC38 was intended as a pass through mechanism. As we have previously advised Ofgem, in our view a pass through term with CRC2B on a 2 year lag would work much better, as this would allow payments to be made to the SOLR supplier on a timely basis with charges to other suppliers flowing through normal DUOS tariff revisions in accordance with the 15 months' notice requirements, with no further need for Ofgem intervention or methodology. This can be achieved by a relatively simple licence modification by adding an extra pass through term to CRC2B, with consequential changes to CRC2A.

SLC38 also needs to be amended to require DNOs to make SOLR payments to suppliers, and allow for Allowed Revenue to be increased in accordance with CRC2A, rather than an immediate tariff increase. There may also be a need for transitional arrangements to provide for shortfall/excesses arising from the Co-op Energy SOLR.

In addition we have previously proposed a further pass through term for supplier default debt, again with a 2 year lag. This could then include the recovery of bad debt on behalf of IDNO which has been raised as part of DCP 314.

This would provide certainty and transparency to suppliers and save a lot of unnecessary time and effort for DNOs and Ofgem.

We would urge Ofgem to work with DNOs on possible licence drafting and consult on proposed Distribution Licence modifications as a matter of urgency.

If you would like to discuss this further please contact me on 0117 9332382 or at nrichardson@westernpower.co.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'Natasha Richardson', with a horizontal line underneath the name.

NATASHA RICHARDSON
Regulatory Compliance Manager