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RE: Proposed modifications to SoLR supply licence conditions

Dear Lesley,

Wales & West Utilities is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major gas shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.5 million supply points.

We thank you for the opportunity to comment on the proposed modifications to SoLR (Supplier of Last Resort) supply licence conditions. As a gas distribution network operator, we are keen to ensure our domestic customers are protected in the case of a supplier failure, but equally this protection is balanced with the need to protect all customers from potentially increased costs of the insurance that the SOLR process provides. We are therefore pleased that your review considers financial instability of suppliers, especially given the relatively low barriers to entry to becoming a gas or electricity supplier. Ensuring robust financial management of suppliers should help protect customers from the need for Ofgem to evoke the SOLR process.

Our response specifically considers your four questions.

Do you agree with the intent of the proposed changes?

The intent covers three main themes of comment:

Widening protection for customers who have outstanding credit balances with their previous Supplier

Faster more reliable switching is likely to increase the volume of effective switching, as such this issue, if left unresolved may increase. We therefore agree with the intent to protect those customers with credit balances who have switched in the same way as those who have not.
If not already considered, we would recommend that as part of this review Ofgem reviews the SLA for repayment of credit balances following successful completion of a switch. Given that smart metering should provide the supplier with accurate billing information, we expect that such balances should be lower, and final bill and settlement should occur soon after the effective

switch. In doing so this minimises the risk that large credit balances remain outstanding which could later result in an SOLR claim.

Removing the hypothecation of payments
Currently the licence provides an intent to hypothecate SOLR to the regions the relevant supplier serviced. We are unconvinced that this is fully justified. We are also unclear of the extent this licence change impacts the consideration of hypothecating claims by fuel type (Electricity and Gas) in addition to their geographic location.

With respect to gas and electricity suppliers, we believe that the costs associated should be fully hypothecated to the respective fuel. This is founded on the basis that electricity domestic supply points are separate from gas supply points, in total there are more electricity supply points than gas. Therefore we believe it would be inappropriate for the debts held by electricity customers to be funded by gas customers (and vice versa), due to the cross subsidy it provides. We believe there is a case that this cross subsidy argument can be extended to the geographical nature of suppliers. For example it could be argued that a supplier focussed on one geography, may have offered preferential contract rates to that geography. We understand that in the case of Future Energy their supply portfolio was concentrated in the North of England, as an example and therefore customers from other regions may not have had access to the tariff rates available to those customers. Under this proposal all customers would certainly have to pay a higher bill to compensate those who were potentially afforded these lower tariffs with the failed supplier (the assumption being the tariff was likely to be low, resulting in the ultimate failure).

We therefore accept that there are benefits of removing the reference to geography for simplicity, as in many cases a socialised cost would be appropriate, but believe that it should continue to be a consideration when deciding upon ultimate allocation of SOLR costs. The geographical split at the lowest level we would consider would be no smaller than the Local Distribution Zones (LDZ).

Amending the timeline for SOLR submissions
As SOLR costs are ultimately passed onto the customer it is important that there is clarity regarding the extent and timing of any potential impact. Removing the current deadline of six months in place of a specific tailored date noted within the appointment of the SOLR therefore assists in this, whilst providing a more tailored deadline to the specific case. We are therefore supportive of this principal.

Do you believe that the draft licencing change delivers the intent?

Yes, however we note that Appendix A makes no reference to Gas, therefore our assessment is based on equivalent amendments being made to the Gas Supply licence.

Do you consider there are any potential unintended consequences of the proposed changes that we have not identified?

Referring to the above comments, clarity on how SOLR claims are apportioned between gas and electricity customers should be considered. For example by the failed suppliers supply point count in each, or the known credit balances under each fuel type. The latter would be preferential as there may be underlying reasons why credit balances are higher for one fuel type than another (for example gas customers may be in credit during the summer when usage is low but direct debits remain higher based on annual consumption).

Do you have any comments on the proposed licencing drafting, set out in Annex 1.

Apart from the observation this is not specific to Gas, our only other comment is relevant to the Distribution Network Operators.

Whilst not specific to this consultation, the review should consider the timing between the submission of an SOLR claim, the direction made relating to that claim, and the Regulatory Year in which that claim is recovered by the Distribution Network Operators. The experience of the claim made by Co-op highlighted that the current process did not align well with the 90 day indicative pricing statements issued by the Gas Distribution Networks (GDNs), or their final notification of prices. We continually aim to provide meaningful and accurate forecasts to our customers (the Shippers) and therefore review of the end to end payment process should be included in the scope of this review. We are happy to support Ofgem in any such review.

Yours sincerely,

Steve Edwards
Director of Regulation and Commercial
Wales & West Utilities