

SoLR Cost Recovery Modification to the Electricity Distribution Licence

11 December 2018

Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Consultation Response

Energy UK is concerned that Ofgem's informal consultation letter, dated 20 November, does not sufficiently acknowledge and explore the risks associated with reopening Distribution Use of System (DUoS) tariffs in order to levy the Supplier of Last Resort (SoLR) charge. As a result, Energy UK does not support the modification that Ofgem has proposed.

Our fundamental concern is that the rationale for the introduction of the 15 months' notice requirement, which was supported by Ofgem via DCUSA DCP178 in 2015, would be undermined by this modification. Suppliers would not be able to adjust fixed price contracts for within period changes and risk being unable to recover these added costs.

This risk of an inability to recover costs is exacerbated by the imminent imposition of the default tariff cap. Network costs are a distinct factor in the level at which the cap will be set and Ofgem have made clear that there will be no in-period updates to account for variation in costs outside the review periods. The retail market has experienced a growing frequency of market exits and SoLR events throughout 2018, before the full effects of the price cap are even being felt. The implementation of this modification would risk further market exits and in turn have perverse consequences on competition and consumers' trust and engagement with the energy market.

Before Ofgem proceeds with these proposals, Energy UK would urge that a further industry consultation is required to take into account the significance of the proposals under the price cap. If Ofgem does then decide to implement the proposed modification, Energy UK believes that any derogation from the 15 months' notice requirement should only be granted if a DNO demonstrates that without the derogation it would be unable to maintain an investment grade credit rating.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.