Philippa Pickford
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Ofgem,
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London,
E14 4PU

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Dear Philippa

Last Resort Supplier Payment Claim from Octopus Energy Limited

Thank you for providing us with the opportunity to consult on Ofgem's proposed position in relation to Octopus Energy's claim for reimbursement via a levy on network charges in 2019/20.

We have three areas of concerns that we would like to address:

- a need for increase in transparency and timeliness of the outcomes following a Supplier of Last Resort (SoLR) event;
- the need to delay the levy until 2020/21; and
- recovery of Capital Costs for additional working capital to fund SoLR event.

A need for increase in transparency and timeliness of the outcomes following a SoLR event

There is a great need for more details of the winning bid to be disclosed, and at a time closer to the SoLR event. Since Octopus Energy won this bid in July, there have been five more significant SoLR events[1].

While the publication on 21 August outlining the rationale for the decision to appoint Octopus Energy is very clear in some response areas, it did not provide the clarity required to forecast the size of the potential levy for 2019/20. Having details of the costs that Octopus Energy would be seeking to recover and the indicative timings, would enable us to account for potential levies in advance to support accurate forecasting of future tariff rates. This would have allowed us to absorb these additional costs over a longer period with a lower impact on our customers. We can see no

[1] Usio, Extra Energy, Spark Energy, OneSelect and Economy Energy.

justification for maintaining confidentiality of the bid after the appointment of the SoLR. Providing transparency at that stage would allow suppliers to appropriately plan for the recovery of the Levy via tariffs. We understand that some elements will still be highly variable, but given that this is a mutualised cost, we should be afforded maximum transparency at all stages of the process to ensure that the overall cost to the consumer is minimised.

The need to delay the levy until 2020/21

We strongly believe there is a need to delay the proposed levy until charging period 2020/21. This is because our existing fixed-term contracts do not factor in the network levy because of the statements made above. This means that we are unable to reclaim this additional charge from our customers in the short-term, which means that this cost is borne by Green Network Energy. This is not the way that the levy is designed.

If these kinds of levy are delayed until the next round of network charges, it enables us to adequately prepare the business for the increase and gives us greater price and budgetary certainty. This helps us to maintain our financially sustainable business.

Even under this scenario, there will be several of our tariffs where we cannot recover this additional cost as they are fixed beyond this period. However, we accept the need to avoid unnecessarily high capital costs and hence there needs to be a compromise between delay and recovery. The current proposal is only recoverable from SVT customers. Whilst other suppliers may have large numbers of customers on these tariffs and may be able to pass on this cost, our customers are predominantly on fixed tariffs for at least 12 months.

As a result, we ask the recovery is delayed until 2020/21.

Recovery of Capital Costs for additional working capital to fund SoLR event

The capital funding cost appears to be high. This is because it is more than 10% of the capital cost, with a repayment period of around 18 months. This does not appear to be market reflective. The rate used should not be the rate that the SoLR could in theory invest and in theory get a return on another investment if it had the funds available. Instead it should recognise that the SoLR has decided to invest in this opportunity. Therefore, the SoLR should not receive any guaranteed return over and above a typical lending rate. We believe that this is a very low risk funding arrangement and so should attract an interest rate closer to similar low risk investments such as the coupon rate on a UK Government bond of ca.2%. Consequently, a rough estimate of the proportion of capital cost for additional working capital should be ca.3%, rather than ca.10% of the Capital Costs.

Again, we feel there is an issue of transparency here as we are unable to validate these costs ourselves. Sharing more information on why these methodologies seemed appropriate will help industry to ensure that they are producing reasonable estimates when making SoLR applications.

Next steps

We urge you to consider our concerns and the impacts that these have on both us as business and our customers. We'd be very willing to discuss our concerns further with you, and if you require additional information, please do not hesitate to contact Samuel Arnold on 07468 494 721 or S.Arnold@GreenNetwork.co.uk.

Yours sincerely

Pietro Di Maria

Chief Operating Officer